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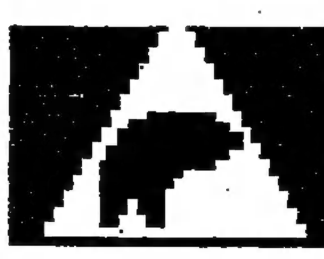

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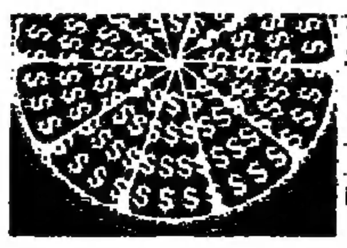

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FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY DECEMBER 8 1994 — D8523A

EU poised to clear state aid for German steelmaker

European Union ministers are today expected to approve a large state aid package for Eko Stahl, eastern Germany's biggest steelmaker, after the UK dropped objections to the DM910m ($610m) deal. Under pressure from its own steel industry, Britain had delayed the deal, arguing that the subsidies were not matched by adequate capacity reductions. Page 16

Berlusconi loses TV ruling: Italian television ownership will be shaken up after a constitutional court ruling that Silvio Berlusconi's Fininvest media empire should not own three commercial TV channels. Page 2

Contest for Japan's opposition leadership:

Former Japanese prime ministers Toshiki Kaifu (left) and Tsutomu Hata will compete today to be the first leader of Japan's new opposition alliance, the New Frontier party. The party's inauguration on Saturday will restore some clarity to Japan's confusing political structure. Page 16

Deutsche Bank shares fell in Frankfurt on unexpectedly poor results for the first 10 months. Operating profits fell 19 per cent to DM3.57bn ($2.39bn) and the bank forecast only a "satisfactory" full-year result. Page 17; Lex, Page 16

Top US delegation for Belfast: US commerce secretary Ron Brown is set to bring a delegation of 300 politicians, government officials and businessmen to next week's International Investment Forum on Northern Ireland. Meanwhile European Commission president Jacques Delors proposed a total of Ecu300m ($382m) extra money to support the peace process. Page 9

Collor goes on trial: Former Brazilian president Fernando Collor went on trial for corruption. But newspapers said there was probably insufficient evidence to secure a conviction despite two years' investigation. Picture, Page 8

South African bond a success: Investors were overwhelmingly enthusiastic about South Africa's first international bond offering since the end of apartheid. The $500m issue was oversubscribed and the offering could be increased. Page 17; Government bonds, Page 21

Fighting as UN troops leave Somalia: Fighting broke out between rival Somali clans even as the last 850 Indian UN troops prepared to withdraw from the southern port of Kismayu.

Malaysia soccer probe: Malaysian police detained 10 state players this week in a big soccer corruption probe but are waiting to make more arrests so the Malaysia Cup tournament does not run out of players.

Gorbachev may stand again: Former Soviet leader Mikhail Gorbachev made clear he might run against Boris Yeltsin for the Russian presidency, possibly in 1996 elections.

Court creates German coal turmoil: Germany's constitutional court threw the coal industry into turmoil by ruling that the Kohlepfennig levy, paid by consumers to support domestic coal production, was unconstitutional. The court said the government would have to phase out the levy by the end of next year. Page 16

Diva divests: Australian opera singer Dame Joan Sutherland is to sell her collection of opera costumes and memorabilia at a London auction in February. Picture, Page 9

Award for Financial Times

The Financial Times has been named best international newspaper in English in the IPD International Press Awards for the second consecutive year. The judges, consisting of senior figures from the international publishing and distribution industries, said: "It remains the world's most authoritative business newspaper, and the standard by which other international newspapers should be judged."

Separately, the FT and the Russian daily Izvestia were named best international publishing partnership for the jointly produced Russian-language business paper Financial Izvestia.

■ STOCK MARKET INDICES

FT-SE 100:	3,012.5	(-3.6)
Yield	4.28	
FT-SE Eurotrack 100	1,335.98	(-0.80)
FT-SE-A All-Share	1,485.82	(-0.1%)
Nikkei	19,174.23	(-166.24)
New York: lunchtime		
Dow Jones Ind Ave	3,732.83	(-19.12)
S&P Composite	451.66	(-1.45)

■ US LUNCHTIME RATES

Federal Funds:	5½%
3-mo Treas Bills: Yld	5.905%
Long Bond	95⅞
Yield	7.913%

■ LONDON MONEY

3-mo Interbank	6⅞%	(6⅝%)
Liffe long gilt future:	Mar 101⅝	(Mar101½)

■ NORTH SEA OIL (Argus)

Brent 15-day (Jan)	$15.91	(16.21)

■ Gold

New York Comex Jan	$377.2	(376.9)
London	$376.3	(376.2)

■ STERLING

New York lunchtime:		
$	1.5633	
London:		
$	1.5644	(1.5631)
DM	2.4576	(2.4579)
FFr	8.4446	(8.4393)
SFr	2.0768	(2.0734)
Y	156.675	(156.704)
£ Index	80.3	(same)

■ DOLLAR

New York lunchtime:		
DM	1.57065	
FFr	5.3977	
SFr	1.32725	
Y	100.045	
London:		
DM	1.571	(1.5725)
FFr	5.398	(5.3993)
SFr	1.3275	(1.3265)
Y	100.15	(100.255)
$ Index	63.2	(same)
Tokyo close Y 99.77		

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lv60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	SK60
Cyprus	C£1.10	India	Rs60	Nigeria	Naira60	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Estonia	EKr20	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
Finland	FM14	Kuwait	Fils.625	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr8.50	Lebanon	US$1.50	Portugal (mainland)		Turkey	L30000
Germany	DM3.60	Lux	LFr65		Esc225	UAE	Dh12.00

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Government prepares spending cuts to combat defeat over fuel VAT

Major raises UK interest rates

By Philip Stephens, Peter Norman and David Owen

The UK government of Mr John Major moved swiftly yesterday to hold the confidence of financial markets in the wake of its latest political crisis by pushing up UK interest rates 0.5 points to 6.25 per cent.

The rise came ahead of an announcement today by Mr Kenneth Clarke, the chancellor of the exchequer, of a package of spending cuts and possibly tax increases to fill the £1bn gap left by the enforced scrapping of the second stage of value-added tax on domestic fuel. Ministers expect most if not all of the shortfall to be made up in spending cuts, with capital programmes a likely target.

In an apparent olive branch to his party's right wing after the recent Tory infighting over Europe, the prime minister hinted at a possible referendum on European integration.

He said moves towards a single European currency would represent a "very significant decision". Speaking on Channel Four news, he insisted that a referendum could not be used as a tactical device to solve short-term problems. But he added: "I have not ruled out a referendum but it is a long way away."

Amid undisguised jubilation in the opposition parties at the government's humiliation on Tuesday, Mr Tony Blair, leader of the opposition Labour party, claimed the Commons defeat marked "a decisive turn in the political tide". Mr Paddy Ashdown, the Liberal Democrat leader, said the government's position was now irrecoverable.

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Despite the succession of blows to his government this autumn, Mr Major shrugged off renewed suggestions that the government had lost its authority. He dismissed speculation that his leadership was under threat but implicitly acknowledged that the government might not be able to see out its full parliamentary term until mid-1997. But as the government struggled to contain the political fall-out from its most significant Commons defeat in 15 years, there were new divisions in the Tory party and signs of cabinet recriminations.

Mr Major faced strong pressure from the Tory right to readmit to the parliamentary party the nine Eurosceptic MPs who played a crucial part in forcing the government to abandon its proposed increase in VAT on fuel from 8 per cent to 17.5 per cent.

The calls for him to retreat in the battle over Europe found an echo in comments by Mr Jonathan Aitken, the Treasury chief secretary. Mr Aitken said he hoped soon to see some "bridge-building", a view apparently shared by other rightwing members of the cabinet.

But the idea that the suspended MPs should be readmitted quickly was flatly rejected by the prime minister in talks with Tory party managers.

Downing Street also slapped down suggestions that Mr Richard Ryder's position as chief whip might be in doubt in the wake of the VAT-on-fuel defeat. Mr Major was said to be "very happy" with Mr Ryder.

There were signs of separate disagreements in the cabinet over the events of the past two weeks. Rightwing MPs claimed they had been told by allies in the cabinet that Mr Major had misjudged the mood of the party.

There were also strong reports, denied by Downing Street, that the prime minister had wanted

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Proposed inclusion of former Warsaw Pact countries called a 'dangerous mistake'

Delors in attack on Nato plan to expand

By Emma Tucker in Brussels

Mr Jacques Delors, president of the European Commission, yesterday strongly criticised US efforts to expand Nato membership into eastern Europe, describing it as a "dangerous mistake".

"I think it was a premature initiative which was badly timed," he said in Brussels, speaking ahead of a two-day summit for EU heads of state in Essen, Germany, which starts tomorrow.

Earlier this week, western nations endorsed US-inspired plans for a faster expansion of Nato to include the former Warsaw Pact countries – a move which infuriated Russian president Boris Yeltsin.

Mr Delors' attack on the push for early expansion comes amid renewed transatlantic tension over the situation in Bosnia. Mr Alain Juppé, the French foreign minister, told parliament yesterday his government had asked the UN and Nato to intensify planning to withdraw peacekeepers from Bosnia because international mediation efforts there had reached a dead end.

His call came as the UN was completing a plan to evacuate up to a third of the 1,200 UN Bangladeshi soldiers billeted in the north-western Moslem enclave of Bihac, which is under Bosnian Serb attack. Mr Delors' misgivings are shared elsewhere in

On the look-out: European Commission president Jacques Delors tries to locate a journalist at his press conference in Brussels yesterday Reuter

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Europe. The UK, for example, has private reservations about the decision to press for early enlargement of Nato. Mr John Major, the British prime minister, told Mr Yeltsin this week that any expansion of Nato would be gradual and balanced.

"If I had had something to say in the matter, I wouldn't have advised the US to advocate enlargement of the Atlantic alliance," Mr Delors said. He is expected to announce soon whether he will stand for the French presidency, but yesterday only repeated that he had made up his mind on the matter.

The Nato expansion strategy has split the allies, angered the Russians and done nothing to help security in the region, Mr Delors said. It had also complicated matters for the EU in its efforts to bring the countries of east and central Europe into the Union.

At the Essen summit, Mr Delors hopes EU leaders will send a positive signal to the Union's neighbours, but particularly those on its eastern flank – Poland, Hungary, Romania, Bulgaria, the Czech Republic and Slovakia – whose leaders will meet their EU counterparts on Saturday. "We have to reinforce the sense of security both internal and external, in these countries," said Mr Delors. A central issue at the summit will be expansion, focusing on what needs to be done by the six countries to bring their economies in line with western neighbours.

Bids for submarine maker to face UK monopolies inquiry

By Bernard Gray, Defence Correspondent

Mr Michael Heseltine, the UK trade and industry secretary, yesterday referred bids from British Aerospace and GEC for VSEL, the submarine maker, to the Monopolies and Mergers Commission.

The decision surprised the City, which had confidently expected both bids to be cleared. VSEL's share price fell sharply from £15.35 to £13.35.

Such a double referral is unusual. The last time a similar event happened was in 1989 when a joint bid by GEC and Siemens for Plessey, the electronics company, was passed to the MMC. That bid was eventually cleared.

Mr Heseltine referred GEC's bid on the grounds of competition because the company already owns the other large UK warship yard at Yarrow on the Clyde. This was in line with the recommendation of Sir Bryan Carsberg, director-general of the Office of Fair Trading.

BAe's bid was referred on other public interest grounds, according to the DTI.

City observers said the government was taking the line of least resistance. "Once the OFT had recommended that GEC was referred, then I think both companies were always going to the MMC," said one defence analyst. "It was the easiest thing to do."

Another said a reference was "a waste of time and money, one of these companies is going to end up owning VSEL and they might as well have fought it out in the market. I think the government is also sending a signal that it would not welcome a closer link between BAe and GEC."

Mr Roger Freeman, defence procurement minister, is expected to give a speech tonight advocating stronger ties between European defence companies – a marked shift away from the traditional policy of national autonomy. The speech also appears to argue against a link-up between BAe and GEC.

Both bids automatically lapse as a result of the referral. The MMC has until March 15 to recommend whether the bids should proceed.

BAe last night said it was disappointed but it would fight its case through the MMC inquiry.

Mr David Newlands, GEC's finance director, said the company, "noted the secretary of state's decision and that GEC's offer therefore lapses". The company will decide in the next few days whether to pursue its bid.

Mr Noel Davies, VSEL's chief executive, said he was disappointed by the decision because it meant that his workforce and shareholders would be left with

Behind the scenes, however, several executives close to the bid expressed anger at what they regarded as the government taking the easy way out. BAe's shares fell 4p to 433p. GEC's shares rose 2.5p to 275.5p.

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Republican moves to make Fed hold down inflation

By Michael Prowse in Washington

Senior Republicans yesterday signalled they would seek a radical revision in the US Federal Reserve's legislative mandate, obliging it to put more emphasis on holding down inflation.

The Fed's sole goal should be to keep consumer price inflation below 2 per cent, said Senator Connie Mack of Florida, chairman-elect of the influential Joint Economic Committee of Congress. Under existing legislation, the Fed is required to promote full employment and economic growth, as well as stable prices.

The Republican proposal followed an oblique warning from Mr Alan Greenspan, Fed chairman, that US short-term interest rates may have to be raised again. Mr Greenspan said the economy was growing faster than expected and expressed concern that financial markets apparently still doubted the Fed's resolve to fight inflation.

Testifying before the committee, Mr Greenspan said the present level of US bond prices signalled a widespread expectation that inflation "will move higher". He reiterated his determination to prevent this occurring, a commitment interpreted in financial markets as a strong hint that monetary policy will be tightened further.

Fed policymakers meet on December 20 to review monetary policy.

Mr Greenspan said consumer price inflation was "flat or down somewhat compared with last year" but warned that prices of intermediate goods were accelerating. Prices of raw commodities had been rising rapidly for nearly two years. He said there was little evidence that US productivity was rising rapidly enough to offset the upward pressure on prices that normally occurs when the economy approaches industrial capacity constraints. Mr Greenspan has long supported a change in the Fed's mandate to make control of inflation its sole objective.

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Berlusconi loses ruling on TV ownership

By Robert Graham in Rome

The possession of three commercial television channels by Prime Minister Silvio Berlusconi's Fininvest media empire has been ruled unconstitutional.

The ruling, published yesterday by Italy's constitutional court, will force a big shake-up of Italian television ownership. This already seemed likely with a referendum pending early next year on the future of the current television structure.

The decision comes at a time when there is increasing concern about the conflict of interest between Mr Berlusconi's role as prime minister and his ownership of Fininvest. Last month he promised to float his television interests on the stock market to resolve the problem; but the court ruling makes the valuation of these interests – split among a plethora of companies – even more complicated.

Mr Berlusconi's Fininvest, whose three channels control 45 per cent of the market and account for 85 per cent of commercial television, has until August 1996 to comply.

Yesterday Mr Fedele Confalonieri, Fininvest chairman, said the group would fight hard to prevent the potential loss of one and perhaps two channels. In 1993 Fininvest's television interests generated income of L3,877bn (£1.5bn) and returned profits of L288m.

At present the operations of the three channels are closely integrated, relying on shared facilities and a common film library valued at about $1.2bn (£770m). The group hopes to exploit a part of the court's decision which recommended that the current limit of 12 channels be eliminated.

Mr Confalonieri said if the total number of channels was expanded beyond the current legal ceiling of 12 then the dominant position of one group owning three channels would be removed. This liberalisation of the market would help Fininvest to hold on to its three channels. The ceiling can only be removed by parliament. Another solution he suggested, albeit interim, would be for Fininvest to lease one of its channels.

The dominant position of Fininvest in commercial television, a unique situation in a European Union country, was formalised by a law in 1990.

The law was the result of a highly politicised trade-off between Mr Berlusconi, then closely linked to Mr Bettino Craxi, the Socialist leader, and the political parties. In return for Mr Berlusconi being allowed to retain three channels and a near monopoly position of commercial television advertising, the RAI, the state broadcasting organisation, was left free to be controlled by the leading parties – the main channel by the Christian Democrats, the second by the Socialists and the third by the then Communists.

Small television operators led by Telemontecarlo, Videomusic and Elefante TV challenged the law, ending up in the constitutional court.

Di Pietro has had enough - perhaps

Robert Graham looks at the motivations behind this week's decision by Italy's best-known anti-corruption magistrate to quit his job

Resignations in Italy are usually threats and rarely final. Thus, Mr Antonio Di Pietro, Italy's best known anti-corruption magistrate, has kept everyone guessing by stripping off his "toga" in court on Tuesday and announcing his resignation. His departure will not become final until January, giving him plenty of time to heed the chorus urging him to remain a magistrate.

If Mr Di Pietro intended a dramatic demonstration of his frustration with the increasing political difficulties of investigating corruption in sensitive areas of Italian life, then he has already achieved his aim.

This policeman who studied at night to become a magistrate, and who has revolutionised investigative work through computerisation, has elicited a huge groundswell of public support.

Even President Oscar Luigi Scalfaro has urged him to reconsider his decision.

Milan magistrates have already used the resignation threat successfully before against Mr Silvio Berlusconi's government. In July, they forced the justice ministry to withdraw legislation curbing magistrates' powers of preventive detention by announcing their collective resignations – the announcement was made by Mr Di Pietro.

This time, however, he has presented himself more as a victim and the message behind his resignation letter is more ambiguous.

He complained that he could no longer work as he had become a sort of political football, kicked around by a self-seeking government and opposition. Clearly there was an element of weariness and personal pique. But there is sound evidence to back his complaint about the increasingly politicised atmosphere surrounding his anti-corruption investigations, which includes Mr Berlusconi as head of his Fininvest empire.

The government has sent justice ministry inspectors to Milan to check claims that the magistrates have abused their authority. It is unprecedented for a government to conduct such an investigation into inquiries which are still in progress; and the action is all the more questionable because those inquiries concern the prime minister himself.

Mr Di Pietro was also one of those most affected by last month's appeal court decision to switch a key investigation to nearby Brescia on the grounds that the rights of the accused were not properly guaranteed. This investigation was into the widespread practice of businesses bribing the Guardia di Finanza financial police to ensure benign tax inspections. It also involved Fininvest – and, as a result, the legal status of Milan's impending interrogation (it probably have been by Mr Di Pietro) of Mr Berlusconi in this respect is in doubt.

But if Mr Di Pietro is now crying foul over government attempts to block his investigations, he can scarcely pretend that his actions have not been political. He has not protested about the deliberate leaks of information discrediting an entire political class since he made his first corruption arrest in February 1992 in what have come to be known as the "clean hands" investigations. He has appeared to enjoy his celebrity.

In September, he chose an invitation to the annual businessmen's meeting at Cernobbio near Milan to launch his ideas about reaching a political solution to the clean hands corruption inquiries. The ideas fell on deaf ears largely because politicians in both the government and opposition felt the move should come from parliament, not the magistrature.

He was said to have been very bitter about the loss of this opportunity to tackle what remains a huge unresolved problem: How do the justice system and Italy's institutions come to terms with corruption when it is all pervasive? Can the investigations be open-ended and therefore never-ending?

This is one of the issues highlighted now. Mr Di Pietro has been instrumental in proving the existence of corruption. Indeed, his resignation came after he had asked for prison sentences on 24 businessmen and politicians, including all five leaders of the parties in the previous Christian Democrat-led coalitions. But sooner or later the government and parliament have to decide how long it is feasible for these investigations go on without risking destabilising the country permanently.

The earlier Amato government nearly fell on this issue because legislation looked like a pardon for all those found guilty of corruption. The same happened in July when legislation curbing the magistrates' powers of preventive detention was seen as a sell-out to corrupt politicians. If Mr Di Pietro's resignation is also seen as a protest against such a sell-out, it complicates the finding of a political solution to "clean hands".


News of Mr Di Pietro's resignation announcement was splashed across the front pages of Italy's main dailies yesterday *Reuter*

But even if Mr Di Pietro genuinely leaves his job, he will still have a role to play. He cannot return to being a simple citizen in his native southern Italy.

Now, more than ever, he is a national figure with enormous political weight: a prize to be poached by any party or government. Mr Berlusconi realised this when he vainly courted him in May for the interior portfolio.

Balladur promises 'new EU impulse'

By David Buchan in Paris

The French prime minister, Mr Edouard Balladur, yesterday promised to try to give the European Union "a new impulse" during his nation's EU presidency in the first half of next year.

In a speech that sought to cool the feverish French debate on Europe, he steered a middle course between the Eurosceptical views of prominent fellow Gaullists like Mr Philippe Séguin, national assembly president, and the Eurofederalism espoused by Mr Jacques Delors, the European Commission president.

Mr Séguin, who led the fight in France against the Maastricht treaty two years ago, returned to the attack yesterday by saying the treaty was "not immovable" and could be drastically revised by the EU's planned constitutional conference in 1996.

To Mr Séguin, who backs his presidential rival, Mr Jacques Chirac, Mr Balladur replied that "the nation state and Europe should not be put in opposition to each other.... because both are needed to build the future".

To Mr Delors' statement this week that only a federalist Europe could combine efficiency with minimum centralisation of the Union, he retorted that the essential was to "define clear goals and the will to pursue them" without entering "institutional debates that are often completely theoretical".

If Mr Delors has really decided to stay out of the French presidency race, as his aides indicate, Mr Balladur will have less need to repeat his critical remarks about Eurofederalism and be freer to pitch for more pro-European ground.

But a Delors opt-out will by no means remove the conflicting domestic political pressures on the French presidency of the EU, as events yesterday made clear. President François Mitterrand used a cabinet meeting to remind Mr Charles Pasqua, hardline Gaullist interior minister, that France had "given its word" to Chancellor Helmut Kohl that it would do its best to establish his project for Europol, a Europe-wide police network, which Mr Pasqua has been resisting.

At the same time, the government exposed its other flank when Mr José Rossi, industry minister, signalled to the National Assembly that France was ready to accept an international ban on direct shipbuilding subsidies. Deputies allied to Mr Chirac, who has made continued aid to shipyards part of his presidential campaign, said the government was condemning the yards to a slow death.

Mr Alain Juppé, the foreign minister who is the main pro-Chirac "cuckoo" in the government nest, also made a statement about the increasing "unsustainability" of French peacekeepers in Bosnia. The domestic politics of the Bosnia impasse have been that no presidential candidate believes any longer that French forces serve a very useful role there, but none wants to open himself to electoral charges of cowardice by openly calling for their withdrawal.

Telecom Italia plea suffers setback

By Andrew Hill in Milan

Italy's anti-trust authority has increased pressure on the government to reject Telecom Italia's demand for tariff concessions to offset increased competition in mobile telephone services.

In one of his first acts as head of the authority, Mr Giuliano Amato, a former prime minister, has warned that the authority would almost certainly have to take action if Telecom Italia won concessions on tariffs and used its new pricing freedom to hinder the development of the new Omnitel-Pronto Italia consortium.

That consortium, headed by the Olivetti computer group, won the licence to build the country's second pan-European digital mobile phone network in March, and will have the freedom to set prices at any level on that network.

Telecom Italia now wants the same freedom to set prices on the existing national analogue network, over which it has a monopoly, arguing that, otherwise, Omnitel will be able to undercut its service, which has more than 2m subscribers. Subscribers to the analogue network can only use their telephones in Italy whereas digital customers can make and receive calls in many other European countries. Telecom Italia also wants a reduction in its annual fee to the government, to compensate for the advent of competition.

In a letter to Mr Silvio Berlusconi, the prime minister, and other ministers, Mr Amato warned that if Telecom Italia made "strategic use" of its already dominant position, "it would be difficult for the [anti-trust] authority not to intervene.... to remove the conditions which obstruct competition". He also pointed out that a long and messy anti-trust inquiry would further delay liberalisation of mobile telephone services, a process which is already running behind that of other European countries.

Yesterday, the committee of ministers which has to decide on Telecom Italia's demands postponed a discussion until December 15, "to allow for further in-depth consideration of the questions raised, and to listen to the positions expressed by the parties involved".

Omnitel, which hopes to have a commercial service operating in Italy by the end of next year, argues that Telecom Italia has a strong lead in the Italian market for mobile services, even if the state company has not been allowed until now to develop its own digital network. Telecom Italia, however, believes it ought to be able to compete directly with Omnitel on digital and analogue services.

Mr Amato's informal intervention is unusual, and based on only a preliminary assessment of the situation. But the anti-trust authority wanted to underline the risks involved in granting further concessions to Telecom Italia given that "the opening of digital mobile phone services to competition represents a fundamental step in the process of liberalising the entire telecoms sector".

Further delay could also provoke action from the European Commission, which has kept a close watch on the gradual liberalisation of the market.

Since last week, neither Telecom Italia nor Omnitel has commented publicly on the situation, but behind the scenes there has been fierce lobbying of ministers. Telecom Italia has also deliberately withheld its signature on the joint convention which will govern the new digital "GSM" services, even though it was signed by Omnitel last week.

Olympic rescue goes to vote

By Kerin Hope in Athens

The Greek parliament was expected late last night to approve a plan to restructure Olympic Airways, the loss-making state carrier. The legislation paves the way for a cut of 1,900 jobs, a management overhaul in the next six months and measures to improve productivity.

The three-year plan, agreed earlier this year with the European Commission, is designed to return the airline to profit by 1997. The Greek government will provide a final injection of Dr54bn (£142m) into Olympic and write off accumulated debts of Dr491bn.

Among Olympic's unions only the cabin crews have refused to accept the plan, which is due to take effect on January 10. They object to a two-year freeze on the pay of all employees and increased working hours. However, a strike threat was brushed aside by a senior Olympic official. "We expect the flight attendants to fall into line in the next few days," he said. "They have few grounds for argument because their productivity is the lowest in the company." Cabin crews fly an average of only 30 hours monthly.

The restructuring plan aims to turn last year's Dr135bn losses into a Dr14bn profit next year. Up to $378m in government-guaranteed financing is to be provided for buying new aircraft, the funds to come from a ticket surcharge originally intended to help finance a new Athens airport.

Under the new legislation, Olympic is to be operated as a private company, a change that should add flexibility in setting ticket prices and changing management practices. The airline has already appointed two international consultants to oversee changes in organisation and management, due to take effect next spring.

However, Olympic will find it difficult to claw back market share lost to charter operators that carry two-thirds of the 10m tourists who visit Greece each summer, and to small Greek private airlines flying on the main domestic routes.

Olympic's share of air traffic to and from Greece has dropped to 12 per cent, while its passenger load factor has fallen from 68 to 60 per cent of seats in the past five years. The state carrier is obliged to fly to remote Greek islands year-round to keep communications open, although these routes make heavy losses in winter.

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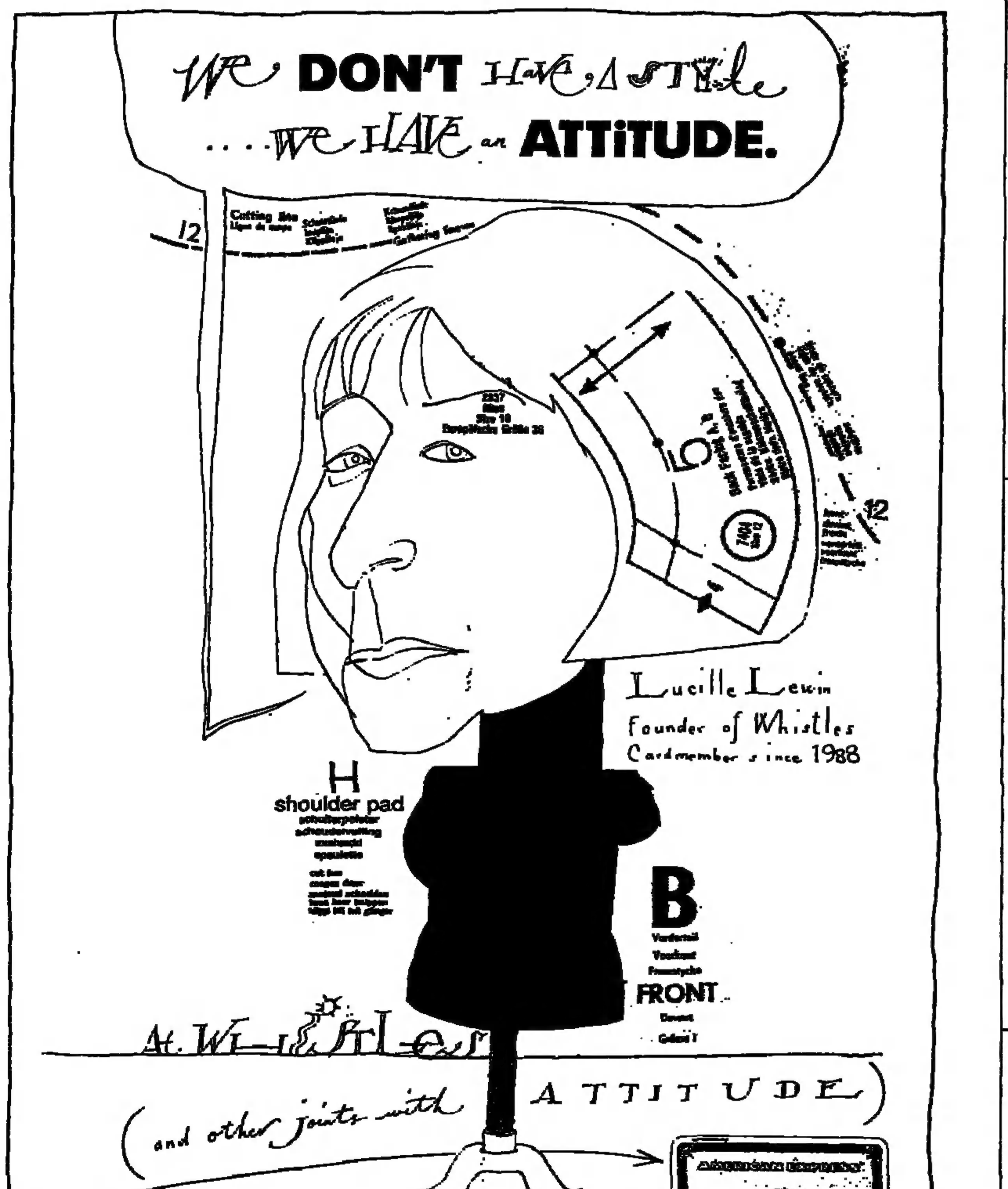


مكرر من الاصل

EUROPEAN NEWS DIGEST

Portillo 'trick' astonished EU

Mr Michael Portillo, the UK's employment secretary, was yesterday accused of deception by the senior civil servant at the German ministry of labour over his decision to veto the European Union draft directive on part-time workers.

Mr Horst Günther, a German state secretary, told a European trade union conference on working time that the other 11 EU member states at the EU's social affairs council meeting on Tuesday had been "tricked" by Britain into believing that it was prepared to compromise. As a result, the draft measure was watered down to try to meet British objections but at the last moment Mr Portillo astonished and angered his employment minister colleagues by refusing to accept it. Mr Günther made it clear that Germany intended to mobilise support among the other EU member states for a further development of the EU's social dimension – through the creation of minimum labour standards without undermining competitiveness. The German government believes this will not require a comprehensive legislative programme but will emerge through agreement on specific fields of action. Bonn is insisting that this will involve an enhanced role for European trade unions in reaching consensus deals with European employers through social dialogue. *Robert Taylor, Düsseldorf*

Bosnian Serbs again talk peace

The Bosnian Serb leader, Mr Radovan Karadzic, yesterday signalled he was ready to rejoin international talks to end the war in Bosnia. Mr Karadzic "welcomed the new interpretation" of the five-nation contact group plan, whereby further work on the map is possible. In another placatory gesture Bosnian Serb leaders yesterday gave the go-ahead for the despatch of an emergency relief convoy to desperate Moslems in Bihac, the UN safe area, for the first time in two months. The UN yesterday was putting the finishing touches on a plan to evacuate up to one-third of the 1,200 UN soldiers billeted in the north-western Moslem enclave. Meanwhile, the German government yesterday postponed making any decision on providing Nato with Tornado fighter bombers for use over Bosnia because the western alliance had not formally requested the aircraft, Mr Friedrich Bohl, a chancellery minister said. However, western diplomats said Bonn declined to make any decision because the circumstances, scope, and objectives of providing the Tornados was unclear. *Laura Silber, Belgrade and Judy Dempsey, Berlin*

Irish continue coalition search

Ireland's Fine Gael party, the largest opposition grouping, held talks with the Labour party and smaller opposition parties yesterday on forming a broad coalition to head-off an early election. The meeting came amid farcical scenes in the Dail, the Irish parliament, as a special judicial committee failed to win an explanation from the attorney-general, Mr Eoghan Fitzsimons, on the bungled paedophile priest extradition case. The crisis, if unresolved in the next few days, will leave acting prime minister, Mr Albert Reynolds, no choice but to seek an early election. Talks on a likely four-party coalition could depend on the relationship between Fine Gael's leader, Mr John Bruton, and Labour's Mr Dick Spring, which has not been good in the past. A broad coalition may be difficult to agree given the wide divergence between the two smaller parties – the right-wing Progressive Democrats and the Democratic Left. *John Murray Brown, Ireland Correspondent*

Boost for Dublin's tax haven

The European Commission has extended the deadline for projects that seek to use the tax and other incentives for setting up in the International Financial Services Centre tax haven in Dublin. The original cut-off date of the end of 1994 has been extended to the end of the century following representations from the Irish government. Dublin argued that it needed more time in order to attract enough projects for it to become self-sustaining. Offshore financial services companies that set up in Dublin by December 31 2000 will have a 10 per cent corporation tax rate until 2005 compared with the standard 40 per cent. More than 300 banks and financial services organisations have set up in Dublin since the establishment of the centre in 1987. The main areas are offshore fund management and specialised insurance. *John McManus, Dublin*

Mitsotakis case to be dropped

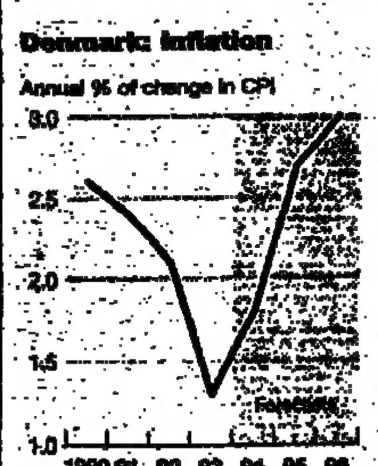
Greece's Socialist government is planning to drop charges of illegal telephone tapping and accepting bribes against Mr Constantine Mitsotakis, the conservative former prime minister. Mr Mitsotakis is due to be tried by a special court on January 23 for allegedly ordering phone-taps of political opponents. In a separate case he is accused of accepting a \$22.5m (£13.7m) bribe in the sale of Heracles General Cement to Calcestruzzi of Italy in 1992. The Socialists appear to be arranging a political trade-off in which Mr Mitsotakis and other backbenchers in the opposition New Democracy party would back the government candidate in next spring's presidential ballot. If the Socialists fail to find the 10 extra votes in parliament needed to elect a new head of state, they face an early general election. *Kerin Hope, Athens*

Swiss banks win secrecy row

Switzerland's banks appear to have won a landmark dispute with the federal prosecutor over disclosing account information of foreign clients suspected of criminal activities. The prosecutor has agreed not to transmit any information to a foreign authority unless there has been a formal request for legal assistance following a proper criminal investigation. The dispute arose last September when Mrs Carla del Ponte, the federal prosecutor, sent a list of names of 60 people belonging to the Sicilian Mafia to leading Swiss banks. Mrs del Ponte suggested to the banks that they make use of a new clause in the Swiss penal code giving them the right to denounce clients if criminal activity is suspected. Under the agreement, the federal prosecutor is free to suggest to a bank that it provides information on clients suspected of crimes. If the bank disagrees, it can seek mediation through the Swiss Bankers' Association. If that fails, the final decision rests with the bank. However, a bank that knowingly harbours a client when there is strong evidence of law breaking violates Federal Banking Commission guidelines. *Ian Rodger, Zürich*

ECONOMIC WATCH

Danish warning on inflation



Denmark's Economic Council, a panel of independent academic advisers to the government, yesterday estimated that consumer prices will rise 2.7 per cent in 1995 and 3.0 per cent in 1996, from 1.8 per cent this year. It also forecast a rise in GDP of 3.5 per cent in 1995 and 3.2 per cent in 1996. It expected private consumption to rise by 7.7 per cent this year, 5.5 per cent in 1995, and 4.6 per cent in 1996. The "wisemen's council" said that rises in wage costs would be the main source of inflationary pressures on the economy in 1995 and 1996. The council's growth and inflation forecasts are at the upper end of economists' estimates. The council warned that "if wage costs rise more sharply than expected it will be necessary to implement fiscal policy tightening in order to maintain competitiveness and interest rate levels". The council said that even if growth were lower than expected, the government should tighten fiscal policy by 1996 in order to sustain the recovery. *AP-DJ, Copenhagen*

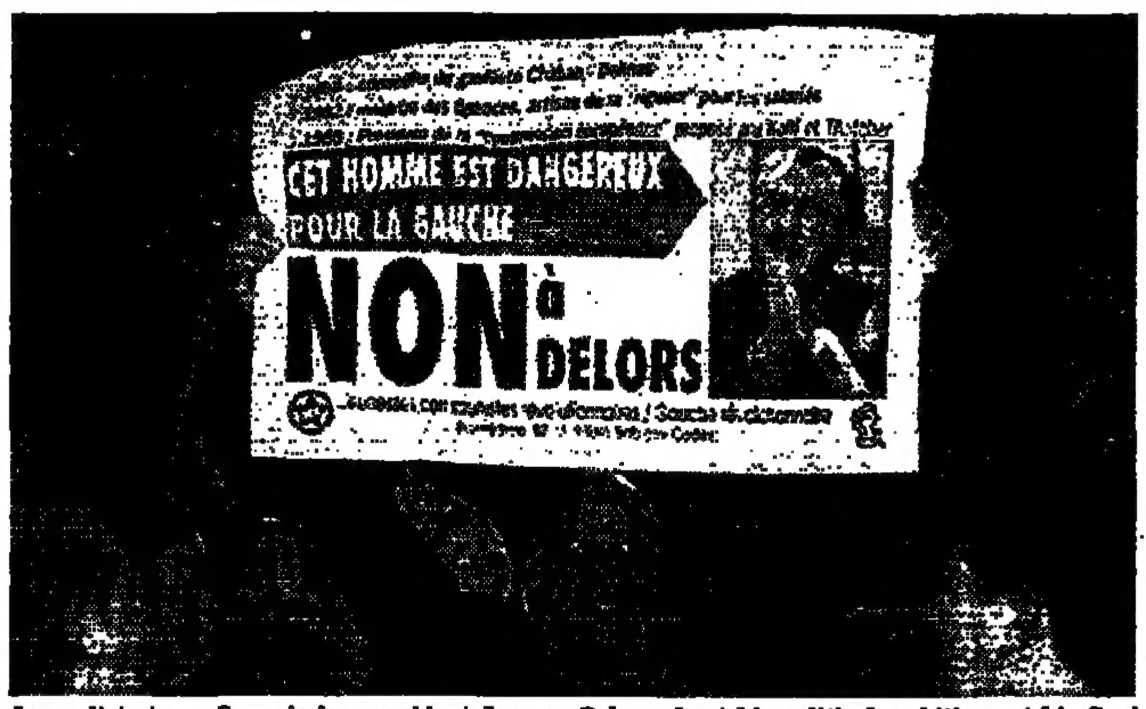
Delors ducks the Ecu64,000 question

The Brussels press corps failed to get a 'Oui' or a 'Non' on his Elysée ambitions, writes **Lionel Barber**

Mr Jacques Delors knew his audience was hanging on every word yesterday. But at the end of a masterly performance ahead of tomorrow's European summit in Essen, the outgoing president of the European Commission avoided revealing the answer to the Ecu64,000 question: does he want to succeed President François Mitterrand in the Elysée?

Speculation about Mr Delors's intentions rose to fever pitch last Tuesday in Budapest on the fringes of the CSCE conference. First, he revealed that he had, at last, made up his mind on whether to stand in next year's elections; but then he refused to reveal whether the answer was *Oui* or *Non*. Yesterday, at his 28th and last pre-European Union summit briefing to the Brussels press corps, he added that he felt "better" now he had made his decision.

The dilemma for Delors-watchers is whether the mixture of philosophical musings and emotional outbursts at yesterday's briefing amounted to a swansong after 10 years in Brussels as the architect of European integration; or whether what we were witnessing was a dress-rehearsal for a presidential campaign whose goal would be to kick-start the Franco-German motor and push ahead for a political and economic union in Europe.



Journalists tease Commission president Jacques Delors about his political ambitions at his final press conference in Brussels yesterday with an anti-Delors poster from France's far left *Reuter*

Mr Delors, 69, revealed that he remains a man of many contradictions. At times, he bemoaned Europe's fate, riven by the Bosnian civil war in its own backyard and shaken by the forces of fragmentation let loose by the end of the cold war. He lashed governments for "taking hostages" in order to get their own way inside the Union, claiming these blocking tactics had reached unprecedented levels.

Yet in the same breath, he suggested that Europe was on the mend. The economic recovery was under way; the European exchange rate system had survived the currency crises of 1992-3; and there was the promise of peace in Northern Ireland, to be sweetened this week with a \$360m (£220m) aid package which he has personally promoted.

"At some funerals, people say "No flowers or wreaths. You do not have to send me flowers and it is not time yet for wreaths. Europe is still solid."

In schoolmasterly fashion, Mr Delors proceeded to tick off the list of reading material which he intends to present to European leaders in Essen: economic competitiveness; the labour market; a case study in job creation, and the new information society – all part of what one senior EU diplomat in Brussels describes as Mr Delors's obsession with Europe's competitive weakness in relation to the US and Asia.

If there were hints of a hidden agenda, it came when Mr Delors launched an outspoken attack on the US for pressing the case for early expansion of the Nato alliance to encompass the former Soviet Union's satellites in central and eastern Europe.

His criticism of the Clinton administration's tactics is shared widely in European capitals, including London; but it would do him no harm among French voters, many of whom remain reflexively anti-American.

Second, his *cri de coeur* about an economic recovery which has failed to create jobs anticipates one of the chief topics on the Essen summit agenda; but it also matches the mood in France where the economy is pulling out of recession more slowly than its neighbours.

Third, Mr Delors dropped several hints that he is deeply dissatisfied with the operation of the Maastricht treaty, particularly the "pillar system" which mixes supranational powers in areas such as agriculture and competition policy with loose inter-governmentalism in foreign policy, security, and judicial affairs.

Mr Delors has already spelled out his preference for a European federation, built around what would amount to a Franco-German political union, in a stream of interviews with the French, and latterly, the German press over the past few months. To Mr Delors, this could be the makings of a strategic bargain between France and the more powerful unified Germany; but in his native France it has led to charges that he is coming dangerously close to being a German "collaborator".

During his news conference yesterday, Mr Delors, who remains notoriously sensitive, let slip that he felt that some of the criticism in France was way below the belt. "Every human activity is imperfect," he protested.

Such sensitivity is not conducive to a presidential campaign; but on the other hand Mr Delors can see an opposition divided, his own Socialist party in turmoil, and a country in search of direction as Europe seeks to bring together east and west.

Inflation spectre stalks Australia recovery

An interest rate rise or unpopular tax increase seems unavoidable, writes Nikki Tait

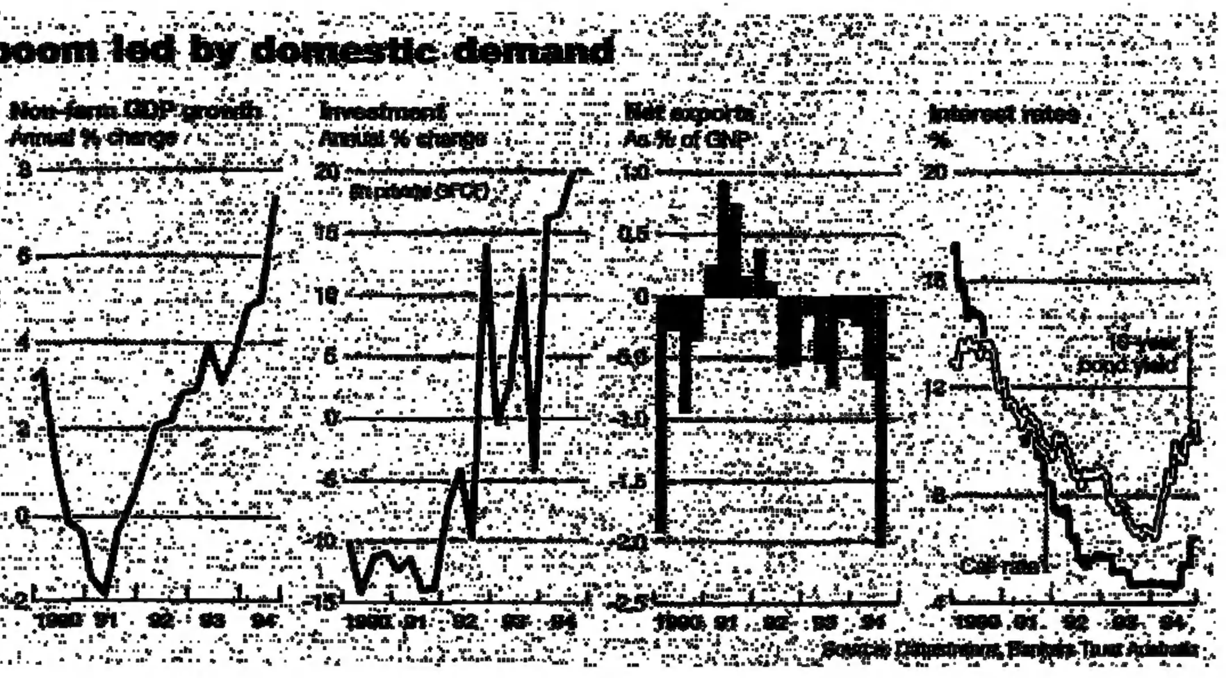
With Australia's growth rate running at around 6.4 per cent – and as much as 7.3 per cent if the drought-stricken farm sector is excluded – the Labor government of Mr Paul Keating faces a dilemma.

Most of the growth has come from higher domestic demand. Gross national expenditure in the September quarter rose by 8.3 per cent, year-on-year, a rate not seen since the late-1980s. No one, from private sector economists to federal ministers, thinks that this can continue without the economy reaching capacity constraints that would feed through to higher prices.

At the same time, however, the figures released at the end of last month showed a big rise in business investment, up by 22.2 per cent on the September quarter level last year. But, while upgraded factories and expanded production lines may ease the pressure somewhat, a sharp rise in capital expenditure also threatens to cause different problems.

Australia's new plant and equipment tends to be imported. As a result, a sudden surge in business investment adds to the trade deficit – a trend which has been evident recently. Since the country's current account deficit already stands at about 4 per cent of GDP, any deterioration would be serious. Already, private sector forecasts suggest a current account deficit of A$20bn-A$22bn (£9.9bn-£10.9bn) for 1994/95, compared with the government's A$18bn prediction.


PM Paul Keating: facing a dilemma



"The key figure in the national income data was the 8.3 per cent expenditure increase," says Mr Don Stammer, chief economist at stockbroker Bain & Co. "That was a pretty big swing, especially with Japan slow to come out of recession and the balance of payments situation. Australia can't afford it."

The consensus is that annual growth needs to be reined back to 4-5 per cent. A rate of 3-4 per cent has traditionally been thought appropriate, but the higher rate is considered justified by the economy's greater ability to tap fast-growing Asian export markets. The question is how to achieve the reduction.

Further monetary tightening is a virtual certainty. Short-term interest rates have already been increased twice since August, by 1.75 percentage points overall. A further rise of perhaps 1 percentage point is expected soon.

Contrary to widespread market expectations, the Reserve Bank of Australia did not move yesterday, the obvious window after its board meeting on Tuesday. Nevertheless, many pundits think that an increase could still come before Christmas, and will certainly not be delayed far into the new year.

Mr Bill Shields, economist at Macquarie Bank, says a rise of 1 percentage point would be about half the "appropriate" monetary response for the next six months.

However, interest rate action is no longer regarded as enough, and many economists are urging additional action on the fiscal front to rein in the budget deficit and further damp down demand. For a start, some economists fear that the severity of the rate rises needed if this is the only policy tool could choke off the investment recovery.

Large rate rises could also be used by unions and employees to justify pay claims – and there are worryingly large wage demands in the system already. Only this week, the transport workers' union agreed to take industrial action against the sector's big trucking companies in pursuit of a 15 per cent wage rise over two years.

The government's difficulty is that tax increases, always politically difficult, are particularly problematic now. First, minor parties – the left-leaning Australian Democrats and the Green party – hold the balance of power in the Senate, parliament's upper house, through which any tax changes must pass. For ideological reasons they are likely to oppose anything of a "regressive" nature – taxes which impose a higher proportional burden on the poorer sections of the community – whether on the income or consumption tax front. Ministers have not forgotten the painful two-month period last year when the 1993/94 federal budget was stalled by political bickering – and both the government's ratings in the opinion polls and the Australian dollar plunged.

One possibility would be for the government to bring forward the one percentage point increase in wholesale sales tax rates which is scheduled to take effect on July 1 1995, plus some tobacco excise increases which are also "in the system" for next year, to January 1.

Other possibilities are a temporary surcharge on the highest marginal income tax rates and a "progressive" rise in the Medicare levy – Australia's national health surcharge – with higher income earners paying relatively larger increases.

Then there is the question of elections. On the federal front, these do not have to be called until early 1996, although the government recently opened the option of an early poll by claiming that the Senate's failure to support its Aboriginal land fund legislation was grounds for a "double dissolution" – that is of both houses.

But state elections are due to take place early next year in New South Wales, where the opposition has held a very slender majority.

Such considerations leave commentators divided over whether the government will implement unpopular tax changes now, hoping that these fade from the electorate's mind by the time a late federal election takes place, or whether it will attempt to go to the polls early, seeking a new mandate.

The former is deemed more likely, but Mr Keating has been giving nothing away. While he acknowledged yesterday that growth was too fast, he also told parliament that the government was focusing on the May budget to monitor fiscal policy.

But, he added teasingly, "that would not preclude any measures which the treasurer or government thought necessary".

Thai minister resigns over resort land scandal

By William Barnes in Bangkok

Mr Suthep Thuaksuban, Thailand's deputy agriculture minister, has resigned following claims that he had helped to assign land on the resort island Phuket to 10 rich families under a scheme designed to help landless farmers. The resignation should ease a political crisis that has threatened to stymie the chances of Mr Chuan Leekpai becoming the first Thai premier to lead a government to its full four-year term.

The land scandal has been given blanket coverage in the Thai press, partly because Mr Suthep is seen to have perverted the government's much touted promise to boost incomes of the rural poor. Opposition parties – delighted to have some dirt to mar the Democrat party's squeaky clean reputation – have warned that a censure debate due on December 14 will go ahead as planned.

With Mr Suthep gone the opposition will now try to bring down the Democrat party's agriculture minister, Mr Niphon Promphan. Mr Niphon was less directly implicated but the family of his political secretary, a Democrat MP, received one of the parcels of land.

Until the land scandal broke 10 days ago the opposition parties had been unusually subdued this year, partly because of revelations that several opposition members of parliament are banned from the US because of suspected narcotics trafficking.

Although some embittered members of the coalition's Buddhist Force party have threatened to vote with the opposition over the land scandal, most government critics appear satisfied with one or two resignations and the promise of a full inquiry.

The more serious threat to the five-party coalition, overshadowed by the scandal, comes from within: General Chavalit Yongchaiyudh, the ambitious interior minister has threatened to pull his New Aspiration party out of the coalition if he is not permitted to vote against a key part of government policy – the democratisation of local government. Mr Chavalit thinks that if he campaigns against the proposal to have village leaders elected, grateful local chiefs will ensure their communities vote for his party at the next election.

Yesterday, however, the Democrats and NAP appeared to be edging towards a compromise.

INTERNATIONAL NEWS DIGEST

Foreign stake in Garuda sell-off

The Indonesian government plans to sell a stake in the state-owned Garuda to a foreign airline before shares in the national flag carrier are sold to the public on the stock market. Officials at the ministry of finance said this would help Garuda to restructure its operations and reduce dependency on government-sponsored commercial loans to fund its business.

President Suharto has already approved the plan but the government has not yet set out a schedule for Garuda's privatisation, or decided how large a stake to sell and whether a foreign airline will hold a majority stake. *Manuela Saragosa, Jakarta*

Rwanda aid given 'to criminals'

Maj Gen Paul Kagame, Rwanda's vice-president, yesterday accused the international community of giving aid to "the criminals who committed the genocide" in his country, in preference to the "needy people" both inside Rwanda and in the refugee camps on its frontiers.

In a speech in London Gen Kagame complained that whereas foreign troops had not come to protect people from genocide, there had been a massive flow of aid to refugee camps after several hundred thousand people fled across the frontiers into Tanzania, Zaire and Burundi. He said there were more people in need of this kind of aid inside the country. *Edward Mortimer, London*

New charges in Indian spy case

A suspect in India's biggest spy case has been charged under an anti-corruption law with illegally accumulating more than $100,000 in a sex, money and secrets scandal, court officials said yesterday. The Central Bureau of Investigation told a judge in the southern town of Trivandrum late on Tuesday that Mr D. Sasikumaran amassed wealth far beyond his regular income as a senior scientist with India's rocket programme. *Reuter, Trivandrum, India*

Corruption row in Lebanon

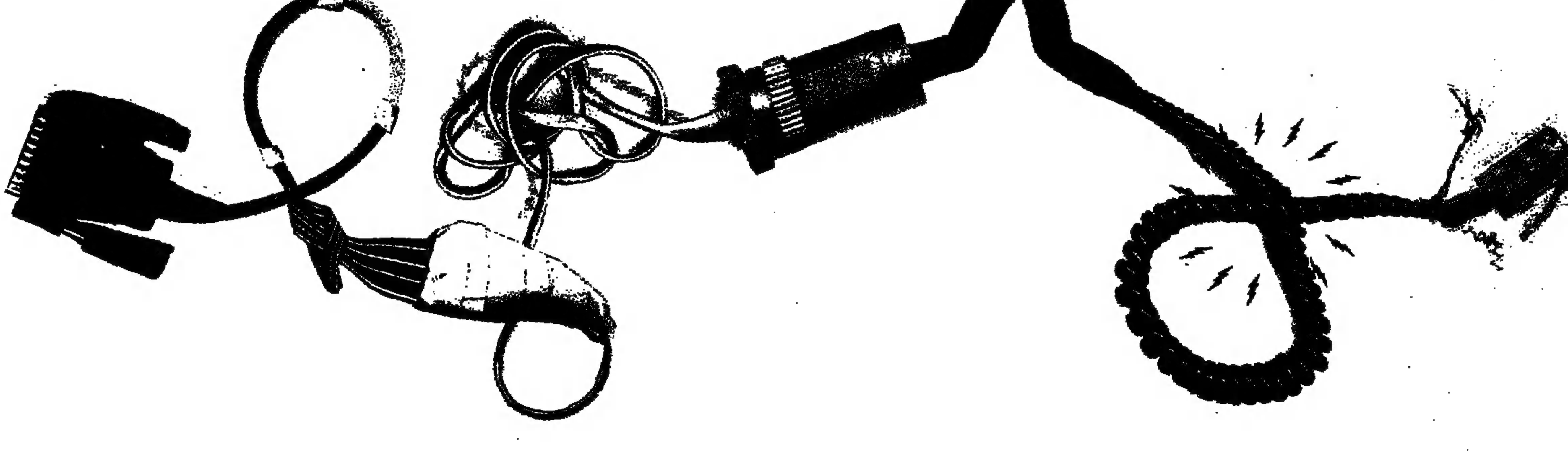
Lebanon's prosecutor-general is to study files handed over by President Elias Hrawi accusing two top Moslem political leaders of corruption. Judicial officials said yesterday that Mr Hrawi delivered files on Mr Hussein Husseini, former parliamentary speaker, and Mr Omar Karami, former prime minister, whom he accused last week of understating the price of properties bought in order to avoid taxes. Mr Hrawi's son Roy has been linked by a parliamentary deputy to drug dealing.

The president made the accusations against the ministers while rallying to the defence of Mr Rafik al-Hariri, the prime minister, at the weekend after the premier had offered to resign citing obstruction from critics accusing him of corruption. *Reuter, Beirut*

■ South Africa is to write off a R700m (£126m) debt owed by its former colony Namibia even though it is trying to win foreign aid and investment to help it rebuild from the ravages of apartheid. *Reuter, Johannesburg*

■ South Korea's gross national product is expected to grow a real 7.3 per cent in 1995 from an estimated 7.9 per cent rise this year, the Korea Institute of Finance said. *Reuter, Seoul*

■ Vietnam needs more than $12bn of investment into the next decade to meet targets for its fast-growing oil and gas sector, officials said. *Reuter, Singapore*



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US presses Israel on Palestinian poll

By Julian Ozanne in Jerusalem

The US yesterday backed Palestinian demands for Israel to move quickly towards permitting long-delayed Palestinian elections, and said Israel was not seeking to modify the peace accords.

"We recognise the importance of holding elections at an early date," Mr Warren Christopher, US secretary of state, said after meeting Mr Yassir Arafat, Palestine Liberation Organisation chairman, in Gaza.

Mr Christopher's remarks came as the Israeli cabinet debated whether Israel can honour the next phase of the peace process (troop redeployment from West Bank population centres ahead of elections) without changing the peace agreement.

The cabinet is split on how to reconcile redeployment of Israeli troops with security for the 120,000 Jews living in 150 West Bank settlements. Some ministers favour regrouping settlements into blocks; one or two favour halting the peace process until the PLO meets Israel's security demands for clamping down on Islamic extremists.

The debate was sparked by warnings from senior army officials about the difficulty of guaranteeing security to Jewish settlers after redeployment, and a statement by Premier Yitzhak Rabin that the government should consider whether Israeli troops would remain in town centres during elections.

The Palestinians have said they will not vote under the barrels of Israeli guns and warned any attempt to alter the peace agreement unilaterally would seriously violate the process. Observers said Mr Christopher's remarks were meant as a signal to Israel, before it concludes cabinet talks today, that Washington backs implementing the agreement as it stands.

After a second cabinet session yesterday, several ministers said that the possibility of uprooting a few settlements virtually impossible to protect after redeployment had been much discussed. Mr Rabin has so far ruled out uprooting settlements and said he would stick to the agreement which postpones the settlement issue until later negotiations.

Mr Shimon Peres, foreign minister, said that despite differences, cabinet endorsement of the peace agreement's framework was overwhelming. Mr Peres is to meet Mr Arafat today to discuss the cabinet debate and seek to remove obstacles to implementing the agreement.

Mr Christopher, who earlier met Mr Rabin, sought to assure Mr Arafat that Palestinian fears of Israel unilaterally changing the agreement were unfounded. "When I was with Prime Minister Rabin he said they intend to carry out the [agreement]. As far as I am concerned, there is not an issue about modification."

Mr Christopher stressed to Mr Arafat that Israel had legitimate security concerns as it faced redeployment in the West Bank and urged him to keep up pressure on Islamic extremists opposed to the peace accord.

South Korea alters policy to let chaebol into new industries

Samsung wins permission to make cars

By John Burton in Seoul

The South Korea government yesterday approved a plan by Samsung to expand into the passenger car industry, in a decision which will reduce administrative efforts to curb the growth of the country's big industrial groups, or *chaebol*.

State approval of the Samsung project was part of a new policy to remove restrictions preventing the *chaebol* from entering new industries, said Mr Kim Chul-su, trade and industry minister.

The new *chaebol* policy reflects the government's efforts to promote deregulation in an economy which has been heavily influenced by state intervention. The government abandoned its policy of allotting industries to designated companies in the late 1980s. But it has since used other measures to keep the *chaebol* from growing too large and increasing their dominance of the national economy.

One favoured means of control has been the requirement that the government must grant approval for the import of foreign technology. The government has used this rule to keep the *chaebol* from establishing new industries, including initially the Samsung car project, which involves the import of automotive technology from Nissan of Japan.

But Mr Kim said yesterday the state would no longer exploit the requirement for this purpose. "There will be no more restrictions applied on new market entries by means of disapproving an enterprise's plans for introducing foreign technology."

Mr Kim's statement represents a victory for the *chaebol*, which have been campaigning for reduced state controls on their activity. They have criticised the government's attempts to limit their growth as short-sighted since it forced them to concentrate on established industries and prevented them from entering new sectors that would ensure their future competitiveness.

The government's industrial policy would shift its focus to technology, environmental protection and promoting balanced regional development, while allowing the *chaebol* to make investment decisions based on market forces and free competition, Mr Kim said.

Analysts believe that the government's current policy of forcing the *chaebol* to specialise in several core industries is likely to be abandoned. But doubts remain about the government's commitment to the new *chaebol* policy. The administration, for example, still wants to stop Hyundai from entering the steel sector by building a large integrated steel mill.

The government objected to the Hyundai project because its proposed steel production technology was outdated and would contribute to pollution, Mr Kim explained. Hyundai believes that government opposition reflects worries that the new steel mill would reduce profits for state-controlled Pohang Iron and Steel, which dominates the domestic steel market.

Police drag away trade unionists protesting in Seoul yesterday at the Samsung car decision Reuter

There are also suggestions that political favouritism is involved since Samsung is considered a corporate supporter of South Korean President Kim Young-sam, while Hyundai is regarded as an opponent after Mr Chung Ju-yung, its founder, stood against Mr Kim in the 1992 presidential election.

But in an apparent attempt to mollify Hyundai, the government decided yesterday to allow it to import technology for the Chariot minivan from Mitsubishi of Japan. It had threatened earlier to block the technology transfer as part of an effort to promote technological independence for the Korean car industry.

The *chaebol* have benefited from previous government intervention because it tended to reduce the number of competitors in specific industries.

Korea's four carmakers have lobbied intensively the government to reject Samsung's car project because it could threaten the survival of existing companies. The carmakers fear that the Samsung project will lead to overcapacity and reduce their domestic market share.

Trade unions associated with the Hyundai, Kia, Daewoo and Ssangyong car companies are threatening to go on strike today to protest against the decision on Samsung.

Turks find way round sanctions on Baghdad

Trade is benefiting the Kurds, writes **John Barham**

At the Habur Bridge border point between Iraq and Turkey, it hardly looks as if Iraq is still under sanctions. Thousands of trucks parked two abreast are lined up for two miles on either side of the bridge, waiting their turn to cross the frontier.

The trucks, all of them Turkish, carry sacks of flour, sugar, cement and other building supplies into Iraq and bring diesel on the way back. Drivers can make a small fortune by selling the fuel at three times the price in Turkey.

Roads on either side of Habur Bridge are streaked black with fuel which has leaked from tanks filled to overflowing. The air reeks of diesel around the Iraqi border town of Zakho, where trucks load up at improvised filling stations.

Turkey claims it is still enforcing UN sanctions on Iraq, imposed in 1990 after President Saddam Hussein invaded Kuwait. But it has never hidden its dismay at the embargo's cost and is pushing to have it lifted.

Officials claim sanctions have cost Turkey $20bn (£12.5bn) over the past four years. Iraq was once Turkey's biggest trading partner and business with Iraq helped sustain its south-east region, one of the most backward in Turkey.

In September, Turkey decided to relax sanctions which had barred nearly all border trade with Iraq. Turkey says it now allows only food into Iraq and lets each truck import just 1,500 litres of fuel. Only 600 trucks are allowed across Habur Bridge each day. Diplomats say the government timed its decision to win votes in elections scheduled for December 4 but since postponed.

The border trade, worth several million dollars a day, is revitalising a region weakened by years of blockade. The local chamber of commerce says 400,000-500,000 people in south-eastern Turkey are benefiting from the resumed trade. Freight agents say rates have increased by half and some days, no trucks are available.

Conditions in northern Iraq, controlled by western-supported Kurdish rebels, are gradually improving. Money is entering the economy, creating jobs in a region suffering over 60 per cent unemployment. Welding, for instance, is a growth industry in Zakho. Men weld huge steel tanks for loading onto the backs of trucks for filling with diesel.

This is because, to comply with sanctions, Turkey forbids the export of steel tanks to Iraq. But it allows exports of sheet steel, welded into tanks and later discarded in Turkey. Most trucks, though, head to the oil town of Mosul, still controlled by Saddam's Baghdad government. There they barter flour and sugar for diesel. One tonne of flour is worth 6,000 litres of diesel.

The trade raises awkward questions for UN sanctions. Western diplomats say they are prepared to turn a blind eye for the time being, since Turkey's support is needed on other matters, such as renewing the mandate for Operation Provide Comfort. The joint British, French, US and Turkish support operation for the Iraqi Kurds is based at Turkey's Incirlik airbase; parliament is to approve its next six-monthly mandate by the end of the year.

Sanctions also cover the Kurdish-occupied region where Saddam's writ no longer runs. The UN does not want to undermine Iraq's territorial integrity by lifting sanctions in the north and give *de facto* recognition to a separate Kurdish state.

The border trade is bringing a dash of prosperity for the Kurds, but their leaders admit it also helping Saddam. Mr Jalal Talabani, one of the Kurds' two political leaders, says: "Turkey is violating sanctions. [Trade] is more helpful to Iraq than Kurdistan".

At the moment, Mosul is getting $500,000 in cash and kind every day from its exports to Turkey. Resumed trade is highlighting the Kurds' own difficulties in forming an autonomous government. The factions led by Mr Talabani and his rival, Mr Massoud Barzani, have only recently agreed to support a new coalition government after spending most of the summer fighting each other in battles that cost 8,000 lives.

Mr Barzani's men control the Habur Bridge customs office, and its revenues of about $100,000 a day. The government claims it is not receiving the money, saying trade only benefits the area under Mr Barzani's control.

Criminal gangs on both sides of the frontier and corrupt Turkish officials are beneficiaries of the Habur Bridge traffic. Drivers say they must pay bribes equivalent to 8-9 per cent of their load to Turkish customs officers. Felemez Buran, a truck driver, says: "If you don't pay, they don't let us through. Everyone takes money. If you pay good money you can bring 30,000 or 40,000 litres of diesel. If you don't pay, you cannot even bring 500 litres."

Drivers have to contend with Kurdish guerrillas, now the only armed presence in northern Iraq, and crime syndicates in Turkey. They all demand their share in protection money. Anyone unwise enough to refuse paying risks having their trucks incinerated.

Last week, gangsters set fire to two trucks. The fire did not spread to the thousands of others parked nose to tail – luckily for everyone there – drivers, Kurds, customs officers.

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ITALIAN PACKAGING MACHINERY INDUSTRY

The Italian packaging machinery industry: a world leader with growing shares in the market, thanks to its traditional success in satisfying market demands, while providing personalised solutions

THE REASONS OF A LEADERSHIP

Italian packaging machines are in use in over 150 countries, mostly in European markets, the U.S. and Japan, as well as in the newly industrialised countries of Asia.
Also of special importance is the use of Italian machines in countries striving to improve their living standards, from the CIS to the other nations of East and Central Europe, as well as China, Latin America and the more developed industrial regions of Africa.
Today one out of four packaging machines on the international market is made in Italy.

A successful tradition. The reasons for this success can be traced within its historical and geographical roots.
The first businesses were formed in Bologna at the beginning of the 19th century.
As true pioneers, the first industries were well ahead of their time in identifying two fundamental demands of the market: the strategic importance of packaging in the market of products of large consumption; and the need to adapt packaging machines to fit the particular requirements of each customer.

Customisation. On the basis of this tradition, the Italian-packaging machinery firms offer a complete range of products on the world market. The systems and the machines they plan are tailor-made to fit specific customer needs, using innovative technology and new materials at every level of the production process. Furthermore, the highest levels of service are guaranteed by a continuous and stable contact between producers and customers.

Non-stop research. The major part of the people working in the Italian packaging machinery sector is employed in research, development and maintenance.

They work on two fronts. On one side they develop an increasing number of complete and automatised lines. On the other side they create user-friendly machinery which requires less maintenance and can be integrated into the users already-existing production and inspection systems.
According to a survey carried out by the Harvard Business School, Italian packaging machinery is an "happy combination of artistry and technology".

Competition and competitiveness. The Italian packaging machinery sector is mainly composed of small and medium sized companies. So competition is very strong and represents a continuous stimulation for the improvement and innovation in products and services, customer orientation, flexibility and good quality-price ratio.
This is the basis for the competitiveness of the sector on the worldwide market.
Such a simple and, at the same time, sophisticated structure quickly became a strong success factor when Italian entrepreneurs begun to cross over the frontiers.
Export has become so important that Italian packaging machinery industry is going to achieve a position of leadership on worldwide market.

The trend of the Italian industry of packaging machinery (value in million U.S. dollars)

	1992	1993	Δ % 93/92
Turnover	1,621	1,824	+12.5
Export	1,123	1,494	+33.0
Deliveries on the Internal market	498	330	−33.6
Import	178	203	+14.3
Domestic consumption	676	534	−21.0
Trade balance	945	1,290	+36.5
Import / Domestic consumption	26.3	38.1	
Export / Turnover	69.3	81.9	

Source: UCIMA–The Italian Packaging Machinery Manufacturers' Association - Economic Studies Bureau

ITALIAN PACKAGING MACHINERY: NON STOP GROWTH.

"We can look at the future very optimistically", said Mr. Giancarlo De Martis, president of UCIMA (the association representing Italian packaging machinery manufacturers).
In 1993 over 300 companies producing packaging machinery in Italy registered a growth in export of 33% compared to the previous year, and the impact of sales on turnover increased from 69.3% to 81%.
"While other countries such as Germany, France and Switzerland reported a decrease in terms of turnover - said Mr. De Martis - the Italian packaging machinery industry seems to be launched towards a continuous growth. With no doubt the readjustment of Lira has been helpful, but the most important role in such a success has certainly been played by the pursuit of a policy of high technology and customer satisfaction".

An in-depth look. Export in 1993 represented 81.9% of the total production of Italian packaging machinery and in the same year balance of trade registered over 1.3 billion dollars (about 70.7% of the total turnover).
Obviously the EC is the primary market for Italian packaging machinery export with a share of 39.2% and with a growth rate in 1993 of 20.4% compared to 1992.
The German market remains the most important (+13.1%), followed by the U.S., France, UK, and Spain.
Export also increased in the Eastern European market (particularly in Poland and CIS) in Latin America (particularly Mexico, Argentina, Chile and Brazil), China and South East Asia.

A "memorable overtaking" of the competitors was then achieved in Japan where Italian machineries represent 35% of the total of foreign machineries sold there.

A strategic development. The strong position of the Italian packaging machinery industry is now going to be consolidated with an outreach visibility plan that UCIMA (the association representing Italian packaging machinery manufacturers) is implementing.
The core of this plan is the creation of the Italian Packaging Points in Hong Kong and Mexico City (and so, at the gateways to the most strategic markets: the Far East and Latin America).
These "IPPs" will support all the initiatives of Italian packaging industry (i.e. the "Italian Packaging and Process Machinery Exhibition" that will be held in Beijing in March 1995), and, most of all, will manage all the communication to the Far East and Central-Southern America.
"The Far East and Latin America, - declared Mr. De Martis - thanks to the development they achieved in the last years will be the big "chances" for Italian packaging machinery industry".
The Italian manufacturers of packaging machinery have already achieved good results, much more valuable considering the fact that, in many cases, there was no advantage coming from the devaluation of the Lira.
"So, - declared Mr. De Martis, the consolidation of the Italian packaging machinery industry in these "relatively" emerging markets, represents the last frontier to worldwide leadership".

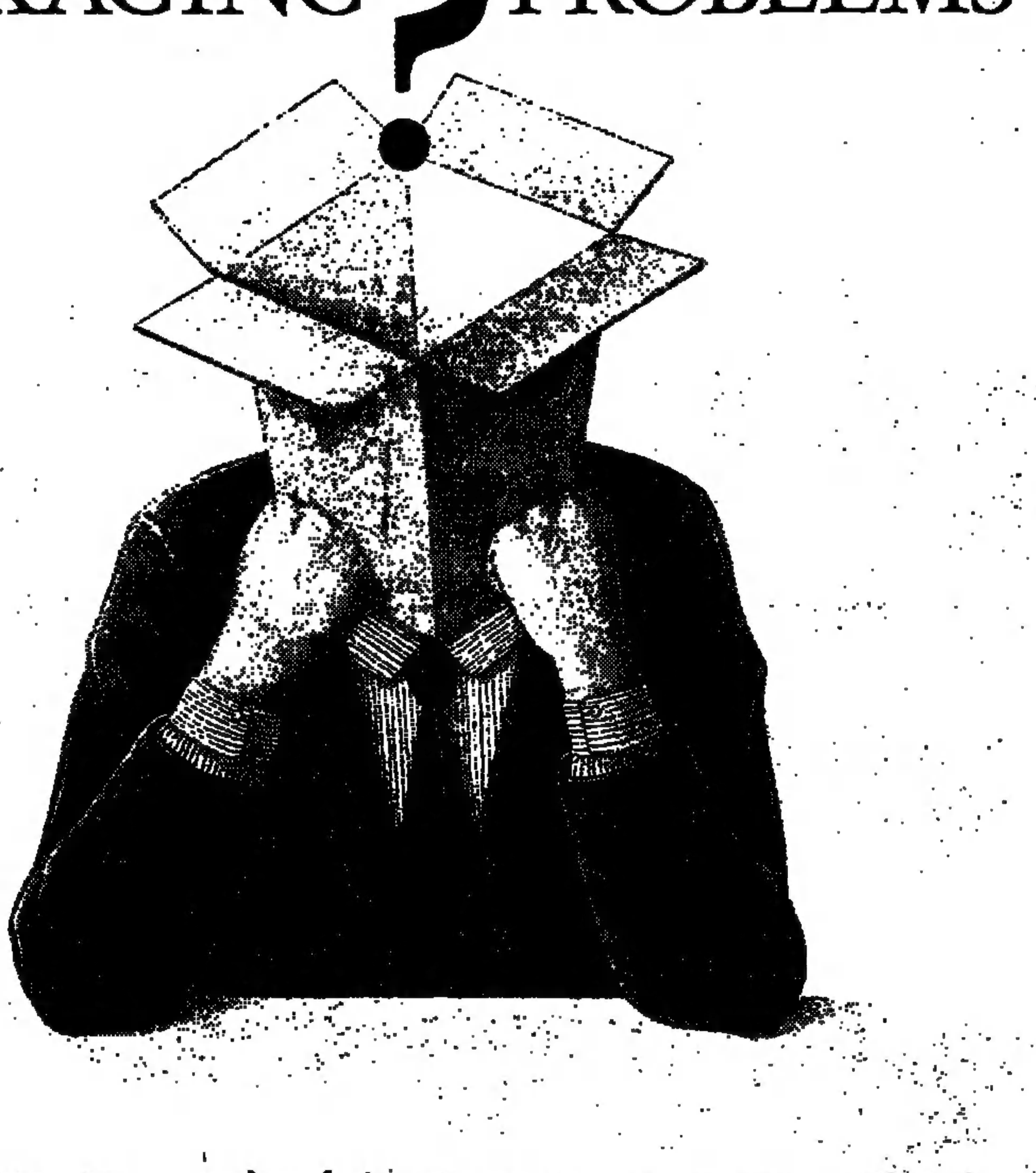
Trade balance with major partners (value in million U.S. dollars)

Italian Export to:		%	Balance '93
Germany	172	10.30%	97
U.S.A.	160	9.59%	139
France	153	9.17%	136
United Kingdom	127	7.61%	116
Spain	72	4.31%	67
Japan	65	3.89%	59
Switzerland	50	3.00%	20
Netherland	23	1.38%	10
Austria	18	1.08%	10
Sweden	14	0.84%	2
Other countries	815	48.83%	797
Total	**1669**	**100.00%**	**1449**

Source: Ucima-The Italian Packaging Machinery Manufacturers' Association - Economic Studies Bureau

Visit the Italian Packaging and Process Machinery Exhibition at the China International Exhibition Centre Beijing, 14-18 March 1995

PACKAGING ? PROBLEMS



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UCIMA - THE ITALIAN PACKAGING MACHINERY MANUFACTURERS' ASSOCIATION

هكذا من الاصل

China's WTO talks go to brink

By Guy de Jonquières, Business Editor

Concern is being voiced in western capitals that unless a basis for agreement can be reached early next year in China's negotiations to join the new World Trade Organisation, the talks may be headed for irretrievable breakdown.

Western diplomats have long stressed that many obstacles stand in the way of agreement. But they now concede that, without a breakthrough, outright failure is a possibility.

Their gloomy prognoses appear in part to signal a sharp escalation of brinkmanship by the protagonists in the eight-year-long negotiations, as they enter what is widely acknowledged to be a crucial phase.

Last week, Mr Long Yong-tu, Beijing's chief negotiator, raised the stakes by seeking to set a year-end deadline for agreement. He said his government would offer no further substantive concessions and seek no more talks with Gatt members after that date.

Mr Long's statement was designed to add impetus to an eleventh-hour negotiating push by Beijing. But though he said he was ready to continue bargaining in Geneva until the end of the year, if necessary, there have been few signs yet of progress. Though Mr Long did not to rule out an extension of talks into next year, his statement appeared to rebuff suggestions by the US and the EU and they would be ready to confer WTO founder member status on China if it joined the organisation next summer.

Mr Long has suggested that the US, which China regards as the biggest obstacle to its WTO entry, might use the extension to spin out the membership talks indefinitely. However, some western diplomats say they are worried that if no substantive agreement has been reached by early summer – and more probably by Easter – the opportunity for political manoeuvre needed to achieve agreement will have vanished.

As one put it bluntly yesterday: "If the gap in negotiating positions has not been closed by then, the talks will probably be dead in the water."

Such anxieties are greatest in Brussels, where EU officials argue that a successful outcome will require high-level political decisions in Washington as well as in Beijing to override the positions of hardliners in the two capitals.

"The tone of recent Chinese statements suggests we are now in a very tense end-game," a senior EU official said. "If they don't come off their positions and there are no western concessions soon, agreement will be hard to achieve."

It is feared that little time remains for President Bill Clinton to impose a change in the US approach before the new, Republican-dominated Congress takes office next year.

Congress does not have a decisive say in China's WTO negotiations. But any big concessions by President Clinton could expose him to accusations of weakness by political opponents and by US business, which sees the WTO negotiations as the best hope of opening up China's markets.

In Beijing, meanwhile, room for manoeuvre may be limited by the reluctance of economic reformers to press the case for flexibility at a time when positions are being staked out over the eventual succession to Deng Xiaoping.

TAIWAN CLOSER TO ENTRY AGREEMENT

By Laura Tyson in Taipei

If China's negotiations to join the World Trade Organisation became seriously bogged down, it would raise questions about the fate of Taiwan's application to join the organisation. At present there is an informal understanding that China, on its own insistence, will enter first. However, western trade experts say Taiwan has gone much farther to meet the demands of members of the General Agreement on Tariffs and Trade.

"Taiwan has worked very hard and put together a good package," said a spokesman at the US's de facto embassy in Taiwan. He said bilateral trade talks in mid-November were "very successful" although several areas had not yet been finalised. Trade experts say it would be up to Taipei to propose any change in arrangements to allow it to enter the WTO before China. Such a move would risk the wrath of Beijing and would have to be approved by Gatt members.

"Our view has always been that Taiwan and the People's Republic of China must put together good accession packages," the US spokesman said. "But the decision is up to all member governments."

Taiwan has made or is negotiating the finer points of concessions on imports for a range of agricultural and industrial products. Taiwanese trade officials say the government is considering imposing non-tariff barriers in place of duties to protect local industries following admission to Gatt.

Taipei has largely conceded to US demands to open its market to rice imports, a politically sensitive issue. It is likely to adopt Japan's approach, which allows for a six-year adjustment period. It has also agreed to dismantle its alcohol and tobacco monopoly.

OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially-supported export credits for December 15 1994 to January 14 1995 (November 15 1994 - December 14 1994 in brackets).

D-Mark	7.97	(8.06)
Ecu	8.86	(8.93)
French franc	8.79	(8.84)
Guilder		
up to 5 years	8.00	(8.20)
5 to 8.5 years	8.30	(8.50)
more than 8.5 years	8.70	(8.85)
Italian lira	11.10	(11.32)
Yen	4.70	(4.70)
Peseta	11.84	(11.90)
Sterling	9.56	(8.73)
Swiss franc	6.45	(6.55)
US dollar for credits		
up to 5 years	8.44	(8.04)
5 to 8.5 years	8.72	(8.40)
more than 8.5 years	8.83	(8.58)

These rates are published monthly by the Financial Times, normally in the middle of the month.

A premium of 0.2 per cent is to be added to the credit rates when fixing at bid. Interest rates may not be fixed for more than 120 days.

SDR-based rates of interest are the same for all currencies. For the period from July 15 to January 14 1995, the SDR-based rate will be 7.35 per cent. It replaces the previous rate of 6.85 per cent. The SDR-based rate will again change on January 15 1995.

White House urged to reduce use of antidumping measures

By Nancy Dunne in Washington

The White House is being urged to rein in the use of dumping measures because of their detrimental effect on liberalised trade regimes.

Two economists with the American Enterprise Institute – Mr Claude Barfield and Mr Mark Falcoff – argue in a new paper that much of the "abuse" of the US dumping laws could be curbed without passage of new legislation. "An essential first step would be a clear statement from the political operatives in the White House that in the future the US would aim for a more even-handed administration of existing law," the authors say.

As the world has moved towards freer trade, 40 countries have established antidumping laws, alleged to protect domestic industries from predatory price cutting. Since 1980, governments have allowed more than 2,000 antidumping actions to proceed. The US has initiated 99 cases in Latin America alone.

"Antidumping laws have moved far from their original goal," say the economists. "Uniformly throughout the trading world, national regulators, using spurious unfair trade claims as a pretext, have manipulated the dumping laws to favour domestic producers and decrease pressure from foreign competition."

The report from the Washington-based think tank singles out two antidumping cases which, it says, were used "to cripple" Latin American exports to the US: actions against Siderca, an Argentine steel company, and Colombia'scut flower industry.

Siderca ran into trouble in 1984 when it refused to enter a "voluntary" restraint agreement with the US. At great expense Siderca successfully fought the antidumping cases. This year it has had to contend with a further two. One US company brought an action against Siderca although, according to the authors, the plaintiff does not even produce the same steel pipe as the imports.

In the second example, the US cut flower industry first tried to keep out the Colombian imports without having to prove an unfair trade practice. When the US government refused, the industry launched more than 50 suits under sections of US trade laws.

After that approach failed, the US Commerce Department began to allow multiple complaints against single types of flower. In 1987 it levied dumping duties on carnations and recently found against imported roses from Colombia and Ecuador.

The authors call for US and foreign companies to be treated under the same competition rules.

"Ultimately this will mean the repeal of antidumping laws – which establish separate rules and criteria for 'fairness' – and their replacement with rigorously enforced antitrust laws that discipline predatory price behaviour," the authors say. Latin American leaders should also agree to bring their own "unfair" trade laws into line with strict antitrust enforcement.

See Feature

Japan advised to buy US aircraft

By William Dawkins in Tokyo

A Japanese defence panel has recommended that the government buy nine US-made aircraft, costing Y30bn ($300m), despite objections from French and Canadian competitors.

If the government follows the panel's advice, this will fuel foreign allegations that Japan's tradition of buying most of its military hardware from the US reflects a desire to reduce trade tensions rather than open its defence market to the best bid.

The multipurpose aircraft are for transporting senior air force staff and supporting military exercises.

Ministers had planned to choose this week, but remain divided, for both political and technical reasons, over the merits of the rival aircraft – the US Gulfstream, the French Dassault Falcon 900 and Canada's Challenger 601. The previous coalition government had decided to buy the Gulfstream, but the Liberal Democratic party demanded a review after taking power in June.

A letter from Mr Edouard Balladur, the French prime minister, urging Japan to consider the Falcon 900, gave the new government another reason to review the decision. Mr Ryutaro Hashimoto, minister for international trade and industry, who takes a tough line on US trade relations, is one influence in the review. Another is Mr Yohei Kono, foreign minister, who suggests the order be split between the US and French suppliers.

The panel of three private sector military experts was set up in an attempt to defuse foreign criticisms of procurement decisions.

The panel's report said the Gulfstream performed better and was cheaper to maintain while the purchase prices of the Gulfstream and Falcon were similar. It said the Canadian Challenger did not satisfy technical requirements for take-off, but Mr Donald Campbell, Canadian ambassador to Japan, disputed this.

WORLD TRADE NEWS DIGEST

France toes line on shipyard aid

France has dropped its long-standing opposition to a new international ban on direct aid to shipbuilding. This follows preliminary agreement with Brussels enabling Paris to continue to give its shipyards roughly the same aid in the form of indirect subsidies. Mr Jose Rossi, the French industry minister, confirmed yesterday that France was ready to join its EU partners in ratifying the direct subsidy ban, negotiated with key non-European shipbuilding countries in the forum of Organisation for Economic Co-operation and Development (OECD) last summer.

Mr Rossi said France's approval still depended on modifications within the OECD accord. But government officials said these modifications had already been negotiated with Commission officials, and were contained in a letter sent by Mr Alain Juppé, the French foreign minister, to the EU executive. This letter sets out France's intent to use the OECD accord's loopholes allowing indirect aid to help French yards with research, development and training to the tune of FFr2.6bn ($480m) in 1996-98. The letter also reserves France's right to come up with other aid proposals. This enabled one senior government official to claim yesterday that the aid would in fact amount to FFr1bn a year for the three-year period. The Commission is due to examine the French aid plan next Tuesday. *David Buchan, Paris*

Manila signs investment pact

Australia and the Philippines yesterday signed an investment protection and promotion agreement, which provides for "fair and equitable treatment" for investors in the two countries, as well as compensation in the case of nationalisation or expropriation, and recourse to international arbitration. Senator Bob McMullan, the Australian trade minister, acknowledged that Australian companies had only small investments in the Philippines but said the agreement would make opportunities "more viable and attractive". A number of Australia's larger resource companies are looking at projects in the Philippines. *Nikki Tait, Sydney*

■ Jetstream Aircraft, the turboprop manufacturing company of British Aerospace, has won a $27m order from South Korea's Seoul Air International for one Jetstream 41 and two Jetstream ATP aircraft. The airline recently acquired two 19-seat Jetstream 31s. *Andrew Baxter, London*

■ Lucky-Goldstar International, the trading arm of South Korea's Lucky-Goldstar Group, has agreed with Russia's Kumertau Aircraft to set up a joint venture based in Singapore to sell Russian civilian helicopters in Asia. Each holds a 45 per cent stake in the venture with paid-in capital of $600,000, and an Australian trading company has the remaining 10 per cent. *Reuter, Seoul*

■ GE Power Systems, part of General Electric of the US, announced a joint venture with Kirovsky Zavrod of St Petersburg for the production of heavy-duty gas turbines. The US company also unveiled an agreement with Indonesia's Agency For Strategic Industries to establish a gas turbine manufacturing base in Indonesia, and announced other link-ups in Malaysia and India. *Andrew Baxter*

■ Daewoo Corp, trading unit of South Korea's Daewoo Group, has signed a joint venture with China's Sichuan Province Automobile Transport Company to run express buses in the area. The joint venture, Chengdu-Daewoo Automobile Transport Co Ltd based in Chengdu, will have paid-in capital of $12m and from next July it will run 40 buses on four routes within Sichuan Province. The joint-venture fleet would rise to 100 buses in the near future. *Reuter, Seoul*

Federal revenues 'could be eaten up by 2012', report warns

US budget cut options studied

By George Graham in Washington

As the incoming Republican Congress prepares to debate a constitutional amendment requiring a balanced budget while simultaneously proposing tax cuts, a bipartisan commission is working on ways to keep the US's long-term federal budget problems under control.

The commission, chaired by Democratic Senator Bob Kerrey and retiring Republican Senator John Danforth, will meet tomorrow to discuss options for reducing tax giveaways and cutting spending on entitlement programmes such as Social Security and Medicare, which provide pension and healthcare benefits to the elderly.

The 32 members of the panel will then vote next week on a package of cuts to be formally presented to President Bill Clinton and the new Congress.

Documents prepared by the commission's staff show that by gradually phasing in changes to entitlement programmes, it is possible to balance the government's promises with the money available to pay for them, and to bring social security and Medicare back to long term financial solvency, without either reducing current benefits or raising current taxes.

But the staff report also outlines a list of options, many of them politically unpalatable, and warns that without action, entitlement spending and interest on the national debt will eat up all federal revenues by 2012, leaving nothing at all for discretionary spending.

"There is a window of opportunity for policymakers to enact reforms now," the staff report says, warning that if action is delayed reforms will have to be phased in much more quickly and disruptively.

The report outlines three sample reform packages, each of which would bring entitlement spending and government revenues into balance by the year 2030 and restore the long-term financial stability of social security and Medicare.

But commission members are expected to make their own suggestions, and the commission has even produced a computer program, called Budget Shadows, to help members or the public to construct their own packages and assess their effect on the budget.

The first staff plan involves no tax increases, but would gradually increase the social security retirement age and the Medicare eligibility age to 70. It would also reduce federal subsidies to Medicare recipients and reduce payments under Medicare to doctors and hospitals.

The most sweeping measures, however, would apply a means test to all entitlements, reducing benefits to anyone with an income above $40,000, (£24,400) and cut all entitlements except health and retirement programmes by 25 per cent. Further savings would be achieved by revising the consumer price index to produce a more accurate reflection of inflation, which would lower cost of living adjustments to benefits.

The second option would make the same adjustment to the CPI, and would also increase Medicare and social security taxes and limit income tax deductions. Instead of raising the retirement age to 70 it would only speed up the already scheduled increase to 67. And instead of means-testing, it would make all entitlement benefits taxable.

A third plan blends the two approaches, increasing payroll taxes for Medicare but not for social security while lifting the retirement age to 68. Entitlements other than social security would become taxable, but social security payments to middle- and upper-income families would be reduced.

While the first plan avoids any tax increases, all three make it clear how difficult it will be to deal with entitlement spending without touching social security at all – the most sacred of cows for US politicians.

Ex-Brazilian President Fernando Collor waves to journalists before a hearing into corruption charges, which began in Brasília yesterday AP

OECD Canada survey underlines 'jobless' recovery

By Bernard Simon in Toronto

Canada is enjoying a robust, low-inflation recovery, reinforced by a marked improvement in its international competitiveness, the Organisation for Economic Co-operation and Development says in its annual country survey.

However, the OECD cautions that high federal and provincial budget deficits and concerns about Quebec secession make the economy vulnerable to swings in financial markets. "Even if temporary, such pressures could affect confidence and hold back activity in interest-sensitive sectors of the economy," the survey says.

Gross domestic product is expected to expand by 4 per cent this year and 4.1 per cent in 1995, with exports and business investment leading the way.

Inflation, measured by the GDP price deflator, will be less than 1 per cent this year, but will accelerate to 2.1 per cent in 1995. Unemployment will drop to 9.9 per cent from 10.6 per cent.

A highlight of recent economic performance has been the replacement of relatively expensive labour by machinery and equipment. According to the OECD, the capital-to-labour ratio rose by about 20 per cent between 1989 and 1993, "lending credence to the view that the Canadian economy has gone through one of the most important periods of input restructuring since the war".

Heavy capital investment appears to have been spurred by a decline in borrowing costs, sharply falling prices for machinery and office equipment, and a tax credit for small businesses.

The other side of the coin however, is what the OECD calls a "jobless recovery". About four-fifths of output growth during the present upturn has come from more efficient use of labour, and only 20 per cent from the creation of new jobs. Declining unit-labour costs have, in turn, contributed to the unusually low inflation rate.

The survey concludes that "the significant improvement in Canada's competitive position should allow a gradual unwinding of the large external deficit". The current account balance is forecast to decline from an annualised C$22bn (£9.8bn) in the first half of 1994 to C$19.9bn in June-Dec 1995.

The recovery should be strong enough for a significant reduction in the budget deficit. But the OECD suggests that the federal government's present target of bringing the deficit down to 3 per cent of GDP by 1996/97 from over 6 per cent last year, may be too modest.

Available on subscription from: Head of Publications Service, OECD, No 2 rue André-Pascal, 75775, Paris-Cedex 16, France.

Referendum for Quebec planned

Mr Jacques Parizeau, Quebec's premier and head of the separatist Parti Québécois, says he will ask voters in next year's referendum to vote yes or no to Quebec becoming a sovereign state in economic association with Canada, Robert Gibbens writes from Montreal.

Mr Parizeau's government on Tuesday introduced a draft bill in the National Assembly in Quebec City outlining the deal it says it will negotiate with the federal government.

The bill says Quebec is a sovereign country and it intends to remain in economic association with Canada, keeping the same boundaries as now and retaining the Canadian dollar.

It would fully accept all international obligations and its legal and public pension systems would remain mainly unchanged, the bill said. The laws of Canada would continue to apply until well after the referendum and negotiations with Ottawa are under way.

$2bn Argentine housing scheme

By David Pilling in Buenos Aires

A $2bn (£1.2bn) financing scheme to build 60,000 houses and create 130,000 construction industry jobs was launched yesterday by the Argentine government, which is facing growing public concern over high unemployment.

Leaked reports, denied by President Carlos Menem, that unemployment has crept above 13 per cent have fuelled public debate over the ability of Argentina's restructured, open economy to create jobs. Most economic analysts agree that the joblessness rate, which has risen steeply since the implementation of economic stabilisation in 1991, is likely to climb further before it recedes.

The housing scheme, designed to bolster a construction sector that has been an important economic motor in recent years, is being presented as one government initiative to tackle the problem. "Next year we will reduce unemployment by 3 or 4 points," Mr Menem said yesterday, promising a substantial public works programme to "absorb many of the jobless".

In addition to its job-creating function, the plan is intended to bring home-ownership within reach of many families denied access to mortgage finance since the ravages of hyperinflation in the late 1980s.

The scheme, to be administered by the state Banco Hipotecario Nacional, will provide 15-year mortgages at an annual interest rate of 13.5 per cent. It is likely to be a vote-catcher in its own right.

Mr Menem, aware that unemployment could become a political irritant in the run-up to next May's presidential elections, has taken to giving impassioned speeches about the need to balance technological innovation with the creation of jobs. Foreign investors, in particular, have been asked not to put "robots" above the welfare of the Argentine workforce.

Orange County counts the cost

Taxpayers will be angry – at the officials who led it to bankruptcy and at the Wall Street firms which profited, **Tony Jackson** reports

The bankruptcy of California's Orange County, announced on Tuesday evening, is without parallel in the history of American local government. One of the wealthiest counties in the US, with a population of 2.6m and an annual budget of $1.5bn (£915m), has been forced into default in a game of double or quits in the financial markets.

In time, the outraged taxpayers of Orange County will want their revenge. It may extend not merely to the officials who lost $1.5bn of their money, but to the Wall Street firms which profited by helping them.

The immediate effects on life in Orange County may be minor. Under the provisions of Chapter 9 – the type of bankruptcy applying to municipalities – the county cannot pay outstanding bills to suppliers or back wages to its employees, at least until a reorganisation plan has been worked out over coming months. In the meantime, though, it can pay wages or other bills incurred since the bankruptcy.

The longer-term effects are another matter. While in bankruptcy, the county cannot pay income on its bonds. Its credit in the bond markets is thus badly damaged. Standard & Poor's, the credit rating agency, said yesterday it was downgrading Orange County bonds to speculative status. Even when it can re-enter the markets, the county will have to pay more for its money.

A hint of what this might mean came yesterday from the county's transportation authority, which has $1.1bn invested in the loss-making central fund. It has assembled a team of bankers and lawyers and accountants "to address debt service, payroll and other obligations". Its planned mass transit programme, the authority said, should still be able to go ahead: "However, it may not be on the same timetable."

Meanwhile, the financial markets are trying to come to grips with not just the scale of the event, but its complexities. One central point is unclear: whether the banks which hold securities against the county's debts are constrained by its bankruptcy from selling them.

To finance its speculations, the county took on a rumoured $12bn in so-called reverse repurchase agreements. These were used to buy securities which the banks then held as collateral. On Tuesday several Wall Street houses, led by CS First Boston, cancelled over $1bn worth of those agreements and sold the securities. Orange County was obliged to file for Chapter 9 in an attempt to stop others doing the same.

Whether this will work is uncertain. The county said yesterday it believed all creditors were "stayed and enjoined from... liquidating the securities that are the subject of... repurchase, reverse repurchase or similar transactions".

Wall Street firms seemed less sure. Yesterday, they were reported to be sending their lawyers scurrying through the fine print of their agreements. Merrill Lynch, which holds $2bn of the reverse repos, said tersely that the bankruptcy did not affect the integrity of its collateral.

If Orange County is right, the $1.5bn loss so far reported on its $7.5bn fund may remain largely on paper. If the banks are right, at least that amount of loss will be crystallised, and perhaps more besides.

Either way, Wall Street will not look too good in the public's estimation. It is already being pointed out that the broker Merrill Lynch, in particular, was instrumental in helping the county treasurer, Mr Robert Citron, in playing the markets.

The company is not commenting at present, but could doubtless argue that it is not its job to warn a client, merely to transact on his behalf.

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Top-level US visitors for Belfast conference

By Stewart Dalby in London and Nancy Dunne in Washington

US commerce secretary Mr Ron Brown is set to bring a delegation of 300 politicians, government officials and businessmen to next week's International Investment Forum on Northern Ireland amid claims that the Clinton administration is moving too quickly on the Ulster peace process.

Sinn Féin president Gerry Adams, who had overnight talks with US National security adviser Tony Lake at the White House, hinted that Washington was prepared to give the go-ahead for fundraising in the US.

But Ulster Unionist MP Mr John Taylor said the US government "are going ahead too quickly in accepting that Sinn Féin has finally transformed from being the political wing of a war machine to becoming recognised as a real democratic political party.

"The first thing they have to do before they can be accepted is to renounce violence and also arrange for the disposal of all bombs and firearms which are still retained by the terrorists," Mr Taylor said.

The Industrial Development Board for Northern Ireland, which is organising the conference – to be hosted by British prime minister John Major – has declared itself "well pleased" with the response to invitations, saying that more than 260 delegates have agreed to attend so far. But many of the delegates will represent companies already invested in the province.

While Mr Brown will be accompanied by four congressmen, by last night fewer than 12 corporate chief executives from the US had agreed to attend.

Mr Ronald Evans, president and chief executive officer of Best Western, is joining the mission in hopes of getting more affiliate hotels. The company's enthusiasm for Northern Ireland springs from its experience in the Irish Republic, where it has found "a wealth of young multilingual talent" and the best telecommunications infrastructure in Europe after France.

Mr George David, president of United Technologies, is participating in order to "support US government efforts to promote peace through economic development," his spokesman said.

Only a handful of British companies not already involved in Northern Ireland are thought to have agreed to attend, although the number could grow, and the number likely to arrive from Europe is not known.

Since 1986 overseas investment has totalled £1.6bn involving 265 projects. Around one third of the investments are from the US. But there is also a considerable number from the Far East, notably South Korea and Japan.

Delegates will tour factory sites, where they will be told that wage levels are 16 per cent below the UK average and that substantial grants – of up to 50 per cent of start-up building costs – are available.

The US chief executives who have indicated that they will be attending next week's conference include:
Mr John Stafford, chairman, American Home Products; Mr Ronald Evans, president, Best Western International Inc; Mr Patrick Keough, president Computronics Distributors; Mr James McCann, president 800-Flowers; Mr William Flynn, chairman Mutual of American Life Insurance Company; Ms Susan Morrice, manager, S. Morrice & Associates; Mr James Malloy, chairman, Smurfit Packaging Corporation; and Mr George David, president, United Technologies.

Regulator fines Morgan Grenfell unit

By Norma Cohen, Investments Correspondent

Morgan Grenfell Investment Management has been fined £180,000 by Imro, the self-regulating body for the fund management industry, in connection with losses from pension schemes controlled by the Robert Maxwell.

The fine is the third-largest ever imposed by Imro. Morgan Grenfell has also agreed to pay costs of £95,000. Imro has also levied £170,000 in fines on two other former fund managers of Maxwell pension schemes for different rule breaches, neither of which led to losses for pensioners. Morgan Grenfell said the error, which was administrative, had been committed in February 1989, and "we accept that we are guilty". Morgan Grenfell has offered to make restitution of £276,000 to one of the Maxwell company pension schemes which trustees say had been lost as a result of the transaction.

The charges stem from Morgan Grenfell's role as fund manager for the AGB Group Retirement Benefit Scheme. After AGB had been acquired by Mr Maxwell, a separate AGB Directors Scheme was set up with its own trustees. However, Morgan Grenfell said it had never been made aware of the distinction between the two. Imro said Morgan Grenfell authorised its custodian bank to transfer AGB directors' pension plan assets to a third-party custodian bank without authority of that scheme's trustees. In total, said Morgan Grenfell, the AGB Group and directors' scheme assets were worth about £8m, of which roughly £800,000 belonged to the directors' scheme.

Also, Imro agreed a fine of £110,000 with NatWest Investment Management in connection with a discretionary investment management service it provided for the Maxwell Communication Pension Scheme. NWIM also agreed to pay costs of £70,000. Imro says NWIM failed to make adequate arrangements for the verification of individuals authorised to give instructions relating to cash payments or asset transfers.

On one occasion, Imro said, NWIM received instructions to transfer shares using blank stock transfer forms.

Imro also said that Nikko Capital Management (UK) Ltd agreed to pay a fine of £60,000 and costs of £42,500 in connection with a significant breach of financial resources rules. In September 1991, Nikko extended a £6m loan to Bishopsgate Investment Management.

However, Nikko's rules required it to have minimum capital resources of £193,000 and it had negative capital of nearly £6m until the following day.

Dame Joan Sutherland is selling her collection of costumes at Sotheby's on February 8 next year for an anticipated £250,000. The highest price, up to £5,000, is expected for the one she wore as Donna Anna in the New York Met's 1978 production of Don Giovanni. Dame Joan is pictured above with Luciano Pavarotti during her farewell performance at the Royal Opera House, Covent Garden

Caution urged on fraud law reform

By Robert Rice, Legal Correspondent

The controversial offence of conspiracy to defraud should be retained pending the outcome of a wider review of the law of dishonesty, the Law Commission said yesterday.

The commission, which has been examining the offence since 1989, said its abolition at this stage would leave "major gaps in the criminal law". The government's law reform body does, however, call for an immediate change to make it possible to convict people obtaining loans, such as mortgages, by deception.

Conspiracy to defraud, which is a common law offence, has had a chequered history. Between a House of Lords decision in 1984 and the 1987 Criminal Justice Act a person could not be charged with it unless what was alleged did not amount to a conspiracy to commit a substantive offence such as theft.

Prosecutors said that such limitations on the use of the offence hindered the fight against serious fraud. The Roskill fraud trials committee agreed with them and the restrictions were removed by the 1987 act.

Prosecutors still say the offence has practical advantages. It reduces the chances of separate trials being ordered where a number of defendants are involved.

Critics say over-reliance on the offence by prosecutors is responsible for many of the problems which have dogged long and complex fraud trials in recent years. They say that it can apply to agreements between one or more people to do something which is in itself lawful.

Critics say the scope of the offence is vague and uncertain and this infringes the principle that it should be possible to ascertain in advance whether any particular conduct is criminal.

EU aid sought for N Ireland

By Emma Tucker in Brussels

Mr Jacques Delors, president of the European Commission, set out proposals yesterday for fresh money to support the peace process in Northern Ireland.

He will ask heads of state meeting in Germany at the end of the week to approve a total of Ecus300m ($382.12m) to "show the EU's solidarity with the people of Northern Ireland in their search for peace and reconciliation".

The aid, expected to meet no resistance from other EU leaders, will be used on urban and rural regeneration, unemployment, cross-border development and cross-community co-operation.

Mr Delors has taken a personal interest in Northern Ireland's peace negotiations, describing them as one of the most important things going on in the Union. He is eager for the EU to give as much economic support as it can to help end what he describes as Europe's "last civil war".

He said yesterday: "We should seize the new opportunities for action in Northern Ireland and address the additional needs arising out of the peace process. This must be done now, to convince those on the ground that the peace process can yield real dividends to their lives."

The Ecu300m comes on top of an existing Ecu 1.23bn of aid for Northern Ireland in 1994-99 under the structural funds programme, and Ecu20m a year to the multinational International Fund for Ireland. The aid, over a three-year period starting next year, will go primarily to Northern Ireland but also to six bordering counties of the Irish Republic.

The programme attached to the aid is based on the findings of a commission taskforce established by Mr Delors after the recent paramilitary ceasefires.

The task force said interest rates on loans from the European Investment Bank should continue to be subsidised.

Society risks court over free shares

Halifax Building Society's plans to give free shares to members when it converts to a public limited company and becomes a bank after merging with Leeds Permanent Building Society could be challenged in the High Court early next year, Alison Smith writes.

Unless Halifax, the UK's largest society, decides to follow the "flat rate" formula used by Abbey National, the former society which became a bank in 1989, there is a strong prospect that its proposals will not fall within the 1986 legislation regulating societies.

The Building Societies Commission, the sector's statutory regulator, has to be satisfied that the plans are squarely within the law for them to go ahead. If it has any doubts, then the High Court decides.

Abbey gave 100 free shares to each borrower and each investor. Other options include treating borrowers and investors differently, or relating the number of free shares to the length of relationship with the society or the money in an investor's account.

Halifax has not yet decided the basis for the share distribution. But the commission is likely to insist that it outlines its intended approach before the two societies' 10m members vote on the merger, which is the first stage of the process.

Stock Exchange to push ahead with 'leak' curb

By Robert Peston

The London Stock Exchange is pressing ahead with controversial proposals to halt trading in individual companies' shares if there is evidence that price-sensitive information concerning those companies has leaked.

The new rules may be tougher than originally planned, according to senior Stock Exchange officials, and are likely to involve the immediate temporary suspension of trading in a company's shares following anomalous transactions in those shares, rather than a phased path to a trading halt as originally planned.

Following a two-month consultation period, the proposals, whose aim is to minimise the effects of insider trading on investors' confidence in the market, are expected to be turned into formal policies in the coming few weeks.

Under the original proposal, the process of halting trading in a company's shares would have been staggered in two phases.

The first phase, known as making a security "indicative", would have involved a temporary removal of the obligation on market makers, the wholesaler of shares, to deal at prices quoted on the SEAQ electronic trading screens.

This would have happened after the Exchange's Integrated Monitoring and Surveillance System, a computerised market-watch system, detected an unusual movement in a company's share price or an unusual volume of transactions.

When the shares had been given this indicative status, the Exchange would have contacted the relevant company and asked it to put out a statement, if for example it was in takeover talks or was in possession of other forms of undisclosed price sensitive information.

Pending the publication of such a statement, the Exchange would have called a complete halt to trading in the shares.

However participants in the stock market have told the Exchange that they are concerned that the volatility of trading will be increased sharply during the period when the shares are indicative, leading to a heightened risk that unwary investors would deal at a price that they would later deem to be too high or too low, depending on the contents of any corporate announcement.

As a result, the Exchange is likely to call a halt to trading in a company's shares the moment that IMAS has detected an unusually strong surge in trading volumes or movement in the share price, without making the shares indicative first.

Telcoms watchdog proposes new price 'freedom' for BT

By Alan Cane

British Telecommunications could be allowed to raise line rental charges under one of the controversial options set out in a "green paper" published yesterday by Oftel, the telecoms regulator.

If BT took full advantage of its potential new freedom, home line rentals might rise by more than £50 a year – though Oftel says competition and consumer resistance make it unlikely that BT would raise rental charges significantly.

A Framework for Effective Competition is expected to initiate the most far-reaching debate since BT was privatised and Mercury formed as a direct competitor in 1984.

Issues discussed include changes in ways of calculating the interconnection charge paid to BT by its competitors for picking up or delivering calls made through their networks.

One proposal is that the Access Deficit Contribution (ADC), a charge to competitors to recompense BT for its obligation to maintain a comprehensive network, should be abolished. Currently only Mercury pays ADCs.

BT said yesterday it was disappointed that the paper seemed chiefly about the regulation of BT rather than of the whole industry.

Mercury, which recently announced cuts in staff and services in response to competitive pressures, and which has been asking for reform of the interconnection regime, welcomed the report. Mr Duncan Lewis, chief executive said: "Any of the options Oftel has laid out for consideration would be beneficial to Mercury and its customers".

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■ Political upheaval alarms City of London ■ Premier condemns opponents of VAT change

Industry and retailers deplore rise in rates

By Our Industrial and Financial Staffs

Industry and commerce yesterday criticised Mr Kenneth Clarke, the chancellor, for raising interest rates and warned that confidence among consumers could be damaged. Retailers voiced concern about the timing of the rise in the crucial shopping weeks leading up to Christmas.

Mr Tim Melville-Ross, director-general of the Institute of Directors, said: "The impression has been given that the chancellor has rushed into a political decision rather than a decision based on sound economic judgment."

The half-point rise in interest rates would make investment more expensive, he said. "It would have been more sensible to delay it until the dust had settled after the government defeat on VAT and the chancellor had announced the measures to recover the lost VAT revenue." Mr Howard Davies, director-general of the Confederation of British Industry – the largest employers' lobby – said: "We did not want to see another interest rate move this year. Inflationary pressures remain weak, especially in the retail sector."

He added that the recovery would continue in spite of the increase, but said the chancellor had to act decisively to restore confidence in the government's fiscal strategy.

The Society of Motor Manufacturers and Traders said: "The November sales figures demonstrated how fragile consumer confidence remains. This increase will do nothing to help." It said that there was now "no prospect" of sales this year reaching the 2m level which the industry needed for profitability.

The City reacted positively to yesterday's base rate rise, with most analysts agreeing that there were good reasons for the increase on economic, rather than political, grounds.

Yet many traders took a gloomy view of the turmoil engulfing the government, fearing that continued political uncertainty could command a higher risk premium on UK assets. Mr Bill Martin, chief economist at UBS, said: "The chancellor's decision to raise base rates immediately following the government's Commons defeat is wholly justified by economic conditions."

Mr Adam Cole, UK economist at James Capel, said: "The economic case for a rise in rates is compelling. The economy is growing at well above its sustainable rate, and inflationary pressures are increasing." Mr John Shepperd, chief economist at Yamaichi International (Europe), said: "I don't think anyone can quibble with the basic view that a base rate rise was justified."

But Mr Roger Bootle, chief economist at Midland Global Markets, said that, in the approach to Christmas, "the impact on consumer confidence of a base rate rise may be quite severe."

One dealer in the City said he had received a string of phone calls in recent weeks from US investors worried about the political outlook in the UK. He said: "They see the politics as a real risk."

Threats and flattery fail to deflect rebels

They threatened, they flattered and they cajoled, writes David Owen at Westminster. Finally they threw more money at the problem. But still it was not enough to stave off defeat for the government over the proposed increase from a transitional 8 per cent to the standard 17.5 per cent in value added tax on fuel. The defeat late on Tuesday was all the more devastating because it followed strenuous efforts by Conservative managers of parliamentary business, known as whips, to dragoon prospective rebels into line.

These efforts culminated just two minutes before the end of the final Budget debate when Mr Kenneth Clarke, the chancellor, acceded to backbench demands for more compensation for pensioners. To judge by the relaxed air on the Tory front bench immediately before the result was announced, the government thought it had won. But it was not to be. The waving ballot papers on the opposition side of the House were soon hailing the defeat.

What may have fooled government business managers was the extent of opposition among the nine Conservative MPs without the whip since last week's vote of confidence on Europe. Eight of these voted against or abstained.

The government's futile attempts to win the day began last Tuesday, when Mr Clarke unveiled new compensation measures for pensioners in his Budget speech.

But it quickly became clear that his package had failed to allay Tory misgivings. Accordingly, when MPs left for their constituencies two days later, government business managers got on the telephones, seeking to sound out the detailed concerns of likely rebels. On Monday afternoon the the business managers reassembled at Westminster. In what was widely seen as an early sign that the government was in difficulties, their meeting went on longer than expected.

Meanwhile in Brussels the chancellor went on the offensive with a warning that MPs would look "extremely foolish" if they blocked the government's proposals.

At an increasingly tense Westminster, MPs who were confidently expected to vote with the government were seen in animated conversation with party officials as and ministers in another bad sign for the government. Then came a crucial meeting between Mr Clarke and potential rebels, at which the government is said to have made clear for the first time that it was prepared to put up more money for old people. But 15 Tory MPs defied the government either by voting against it or by not voting at all.

Timetable of turmoil

MONDAY	Frankfurt		Bank of England governor Eddie George says: "The UK economy is growing faster than can be sustained"
	London		Obscure Conservative MP David Sumberg announces unexpectedly that he will vote against rise from present 8% to 17½% in VAT on home-heating fuel
TUESDAY	London	18.00	Kenneth Clarke buys off Conservative champion of pensioners with offer of extra aid to cushion impact of VAT rise on elderly
		22.20	Other MPs decline to be bought off; government loses
		22.29	vote in House of Commons on VAT rise
		23.30	Clarke abandons rise but warns that resulting shortfall in public finances "must be made good"
YESTERDAY		00.30	Clarke returns to official residence at 11 Downing St and says: "I thought they were the worst arguments I've been beaten by for a long time"
		08.30	Clarke and George hold routine monthly meeting about economic policy
		09.30	Clarke raises base rate from 5¾% to 6¼%
		09.45	Abbey National Bank and Nationwide Building Society hold rates steady. Major meets guests at breakfast for businessmen; his staff at 10 Downing Street announce: "He is exceptionally determined"
		10.15	Midland Bank raises base rate
		12.00	Barclays and Bank of Scotland raise base rates
TODAY		15.30	Clarke to offer Commons new "mini-Budget" to raise funds lost through decision to abandon rise VAT

Major is toast of business breakfast

By Richard Lambert

For a prime minister who just a few hours earlier had lost such an important vote in the House of Commons, Mr John Major was remarkably ebullient.

Fulfilling a longstanding engagement to breakfast with a group of businessmen at a London hotel he looked tired but spoke with passion and some humour.

Mr Major talked optimistically about the recovery, defended his decision to suspend from the Tory party eight Eurosceptic MPs who had voted against the government on a confidence motion. He also called for a more rational debate on Europe.

He said the previous night's rejection by the Commons of the second stage of value added tax on domestic fuel had been a mistake. He did not know of any tax measure that had been so misrepresented. The opposition's comments had been travesties.

Mr Kenneth Clarke, the chancellor, would take the steps necessary to repair the financial damage. "There should be no shred of doubt about this, we are going to take no risks with the economy."

Time and time again since the 1950's the economy had been driven of course by inflation, he said, but this time it would be different. The bedrock on which Britain's economic policy is built was "a bedrock of low inflation."

"We may be on the way to crushing the inflationary psychology . . The opportunity is there to be taken. It can be blown away," he said.

Recent growth rates were unsustainable, but there was an unprecedented opportunity for sustained long term growth and he was determined to pursue policies that would lead to lower unemployment, and less regulation.

Mr Major spoke about how British industry – British Steel and the motor manufacturers were examples – had been transformed in recent years.

"Is this just a normal cyclical recovery? I don't think so". He had been told that by now there would be a balance-of-payments crisis, an inflationary spiral, wage inflation, but none of this had come about.

On Europe, he remarked how frustrated he was that the argument was being heard only from the extreme positions on either side.

Britain's interests lay at the heart of Europe, and it was about time that industry stood up and supported that view.

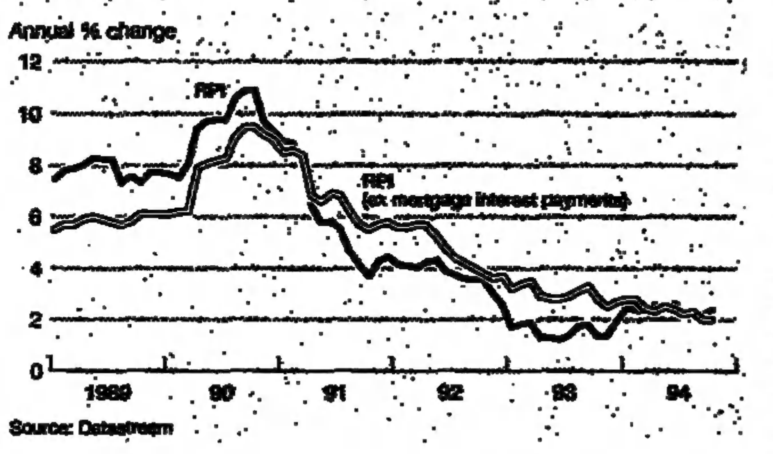
He warmed to a recent less-than-federalist newspaper article delivered by Mr Edouard Balladur, the French prime minister and presidential candidate: "Mr Balladur's grand new gesture sounds remarkably like my Leyden speech a few months ago."

A European single currency would remain impractical for "many many years to come," Mr Major said.

Political woes ruled out as trigger for rates rise

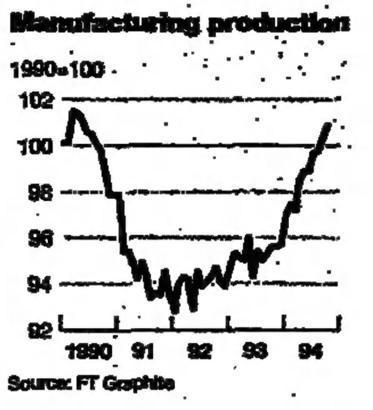
By Peter Norman, Economics Editor

UK inflation



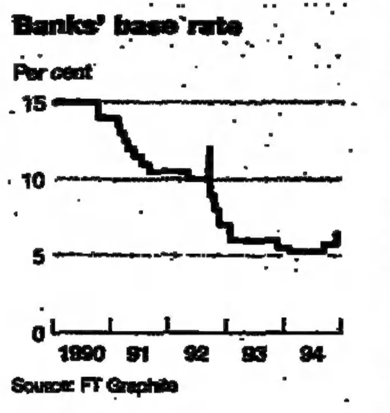
Source: Datastream

Manufacturing production



Source: FT Graphite

Banks' base rate



Source: FT Graphite

The record of yesterday's meeting between Mr Kenneth Clarke, the chancellor (chief finance minister), and Mr Eddie George, governor of the Bank of England, should show – when published in six weeks time – that the decision to raise base rates was based on economic factors.

Officials from the Bank and the Treasury had concluded before the two men met that the economy was growing so fast that base rates should be raised to keep inflationary pressures under control.

It is understood that Mr Clarke himself had all but decided to raise rates this month before Tuesday night's vote in the House of Commons against a further rise in value added tax on domestic fuel.

Yesterday Mr Clarke declared that he and the governor were in "total agreement" on the rates rise. As the chancellor did the rounds of the television and radio studios at lunchtime yesterday to explain the increase, he gave no appearance of a man who had been pressured into unwelcome action by political misfortune.

Mr George's announcement of the increase immediately after the meeting took some observers by surprise but was determined by market factors. The chancellor explained that there were no reasons for delay, and the governor "wanted to avoid market uncertainties".

The Bank wanted the news in the public domain before final bids were due for an auction of £3bn ($3.3bn) of 10-year gilt-edged government stock at 10.00. It also wanted clarity over official rates because it was arranging new two-week and one-month securities-repurchase and secured-loan facilities for its money market operations yesterday morning.

The decisive factor that persuaded the Bank and Treasury to push for the first December base rate rise since the 1970s was last month's sharp upward revision of third quarter growth of gross domestic product. Although the UK is enjoying an unusually favourable pattern of growth, led by industrial production with low inflation and strong exports, the news that GDP was rising by 4.2 per cent compared with the third quarter of last year set alarm bells ringing. Experience suggests that the UK's long-term trend rate of non-inflationary growth is about 2 per cent to 2.5 per cent. Although this may have risen because of supply side reforms in 1980s, it was clear to Treasury and Bank economists that the economy was using up the spare capacity created by the recession at a faster rate than thought.

The Treasury said there was evidence of further strengthening of growth, and pointed to recent business surveys which have suggested that it will remain strong, and that orders are rising.

Manufacturing growth continues strong trend

By Gillian Tett, Economics Staff

UK manufacturing continued to grow strongly in October, official figures yesterday showed.

With concern about the fast rate of economic growth apparently having been one of the factors that triggered an interest rate rise yesterday, the figures provided further indications that the economy is expanding faster than expected.

The Central Statistical Office yesterday said that manufacturing output was a seasonally adjusted 0.5 per cent higher in October than September.

On a three-monthly basis, manufacturing output between July and October was 1.2 per cent higher than the previous three months, and 5.3 per cent higher than the same period a year ago.

This growth in manufacturing was partly offset in October by a slowdown in North Sea oil production.

Although oil production rose by 300,000 tonnes in October, it rose by less than in October 1993, and consequently the CSO's system of seasonally adjustment recorded the rise as a fall.

This apparent fall reduced the overall index of production by over 0.2 percentage points. Consequently, production output rose by only 0.1 per cent between September and October.

This rise was lower than the City had expected. Nevertheless, the CSO yesterday pointed out that the index of production reached a new record in October, while the manufacturing index was only 0.6 per cent below the previous manufacturing record seen in March 1990.

Engineering performed particularly well during this period, gowing by 2.6 per cent in the three months to October compared to the previous three months. The computer sector grew by 8 per cent in this period, and is now 33 per cent higher than last year.

● The rate of growth in the economy may slow towards the end of the next year according to cyclical indicators published by the CSO yesterday.

The longer leading indicator, which includes data on housing, business expectations and financial flows, and indicates turning points about 13 months in advance, fell back in October for the first time for six months.

UK retailers face a subdued Christmas shopping season if the level of trading indicated by cheque usage continues at the level of last weekend, Paul Cheeseright writes.

Transax, a Birmingham-based cheque guarantee company which covers 48,000 shops, reported that last weekend the average level of cheque authorisations for high street stores was running only 4.9 per cent ahead of the comparable weekend last year.

Cheques are used for over half of non-cash transactions in shops, the Association for Payment Clearing Services says. Last weekend was busier than the weekend before. The value of cheques that Transax was asked to authorise was 13.7 per cent higher.

Regulator proposes audit shake-up

By Jim Kelly, Accountancy Correspondent

The role of the auditor faces its biggest reform for 15 years under proposals yesterday from Britain's audit regulator to tackle fraud and improve honesty in company accounts.

The Auditing Practices Board, which issues standards with the force of law, published measures to extend the scope of the audit in listed companies and tackle public scepticism over the effectiveness of auditors.

Mr Ian Plaistowe, chairman of the board, said: "The key to confidence in the capital markets is a sound independent audit function. The proposals in this paper set out to ensure that my profession fulfils this role to the full."

Professor Ian Percy, chairman of the task force that produced The Audit Agenda, said: "The fundamental objective of auditing is to uphold the integrity of financial reporting and business conduct." He said binding rules based on the report could be issued in 1996.

The report follows on from the establishment of the Audit Practice Board in 1991 after a series of corporate collapses in which auditors were blamed for not detecting fraud or inherent financial difficulties.

The report includes proposals to:

- Extend audit for listed companies to include scrutiny of the chairman's report.
- Order periodic special audits designed to catch fraud.
- Require the auditor to sign the accounts personally – not just use the name of the firm of accountants.
- Allow audit committees, which include non-executive directors, to appoint and set fees for auditors on behalf of the shareholders.
- Toughen up penalties for misleading auditors.
- Teach auditors how to spot fraud and fraudsters.

Yesterday's report steps back from the more radical ideas floated in the McFarlane Report of 1992 – such as the establishment of shareholders' committees to deal with auditors – although that idea is not entirely abandoned.

The report was immediately welcomed by Mr Gerry Acher, head of audit at KPMG Peat Marwick, who said it was much more "usable" than the earlier report.

Mr Roger Davies, head of audit at Coopers & Lybrand, said: "The APB is getting into choppy waters in suggesting that audit committees of non-executive directors should have a Continental-style supervisory role in the board.

"We should not tamper with the cabinet style of UK boards where non-executives and executives have different roles but share responsibility."

A consultation period will be open until April 30 1995 and the publication of draft rules will follow.

Plan for air traffic control is attacked

The Civil Aviation Authority has expressed deep scepticism about the government's determination to use private finance to fund capital investment programmes for air traffic control services, our Scottish Correspondent writes.

It has reluctantly accepted that private finance will be used to create the new Scottish air traffic control centre at Prestwick. But it says the use of private finance may result in higher charges to airlines and does not believe private funding to be appropriate for many other air traffic control projects.

The Prestwick project includes new buildings, computers, software and radar to replace the existing Scottish centre for the National Air Traffic Services – a joint venture between the CAA and the Ministry of Defence – which covers the airspace over Scotland and part of the North Atlantic.

Under the government's finance initiative, a private consortium would build and equip the new centre – the cost of which was last year put at £148m ($243m) – and lease it to the CAA. The Prestwick project was due to be completed by 2000, but has been delayed by a year.

UK NEWS DIGEST

Lords erupt over EU proposal for double-deck buses

Members of the House of Lords, the unelected upper house of parliament, complained yesterday that proposed European Union rules would threaten the UK's traditional trade in the manufacture of double-decker buses. Leading Conservative Eurosceptic Lord Tebbit, once a senior minister in the Thatcher governments of the 1980s, to demand assurances that "under no circumstances would the government allow . . . a set of regulations which will prevent us from manufacturing, using and exporting double-decker buses".

The Lords' anger was directed at proposed EU rules on buses and coaches which would require changes in seating and staircases, especially in buses exported from one EU state to another. About 90 per cent of the EU's double-deck buses are in the UK; the rest are in Berlin and the Republic of Ireland.

Lord Goschen, a junior UK transport minister, said it was proving difficult to persuade the Brussels authorities and other EU governments to allow traditional UK buses to continue under proposals for harmonising trade and safety rules. "Any moves which will require major design changes to our buses, without having safety considerations, will be resisted," he said.

But he also said: "We cannot accept this as an issue on which the doctrine of subsidiarity should apply. We shall need to ensure that UK manufacturers will be able to accommodate the eventual standards, particularly in respect of double-decker and midi-buses." Lord Stoddart, once a Labour MP, asked: "Isn't this a case of Europe interfering in the nooks and crannies of our national life?"

Relocation of offices away from London speeds up

The number of office occupiers moving out of central London has risen sharply this year and is likely to remain high as companies rationalise premises, says an annual survey by Jones Lang Wootton, a firm of surveyors. Nineteen large organisations have moved 8,440 jobs out of central London so far this year compared with a total of 3,500 jobs in 1993.

While only 11 organisations have firm plans to move in 1995 and 1996, the level of prospective moves, involving 55 organisations, is at an unusually high level. Central London has lost about 200,000 office jobs over 30 years as companies have decentralised operations away from the capital. Decentralisation fell during 1992 and 1993 as the cost of London office accommodation fell relative to other regions.

Murdoch's TV network soon to launch Disney channel

The Walt Disney Company announced it had reached a binding agreement with British Sky Broadcasting, the satellite television channel controlled by Mr Rupert Murdoch, to launch The Disney Channel as a subscription service next autumn. The channel of animation and family-based entertainment will be available free to BSkyB subscribers who already take both premium film channels.

The Disney deal comes on the eve of the setting of the price and allocation of shares in the UK flotation of BSkyB, a venture in which Pearson, owner of the Financial Times, holds a 17.5 per cent stake. The offering is thought to have been heavily been heavily oversubscribed. The new UK channel will be the first to launch in Europe under the Disney name. Next month Walt Disney and CLT Multi media, the Luxembourg-based international broadcaster, will launch a German satellite channel specialising in family entertainment. A Disney Channel is to be launched in Taiwan next spring.

Westland helicopter approved for transport operations

The EH101 helicopter, developed jointly by Westland in the UK and Agusta in Italy at a cost of £2bn, ($3.3bn) yesterday received the civil certification which will allow it to be operated by air transport companies. The helicopter was simultaneously approved for use by the Civil Aviation Authority in the UK, the Registro Aeronautico Italiano in Italy and the Federal Aviation Administration in the US following a two-year examination.

Mr Alan Jones, chairman of Westland, said: "This is a very important day for us. It marks the successful end of the development phase of the EH101 and the beginning of the marketing and production push." Mr Jones estimated that there was a potential worldwide market for 750 EH101s over the next 30 years which would be worth a total of £25bn to the Anglo-Italian partners.

Two versions of the EH101 were approved, a naval passenger variant which is being marketed to oil rig operators, particularly in the North Sea, and a tail-ramp variant for bulky cargo. Norwegian, Dutch and British rig aircraft operators have already expressed interest in the passenger helicopter, which should be in service by 1996.

The Royal Air Force is considering a tail-ramp version of the EH101 for part of its new fleet of transport helicopters.

Westland is locked in tough negotiations with the Ministry of Defence over price, and a decision is expected around Christmas. Provided the gap on cost can be closed, a mixed fleet of 25 EH101s and six US-made Chinooks, or 20 EH101s and 10 Chinooks may be ordered.

The Italian government is likely to order 16 of the naval anti-submarine warfare version of the helicopter in the next month.

Fewer complaints against banks

Complaints against banks fell last year, but more of the complaints succeeded, Mr Laurence Shurman, banking ombudsman, said in his annual report. There were 8,027 preliminary complaints, a drop of 16 per cent on last year, and the number accepted for full investigation fell by 25 per cent to 833.

Of the 1,095 complaints for which a full investigation was completed, 44 per cent were resolved in favour of the complainant with compensation demanded of the bank, compared with 36 per cent in 1993. The average award, at £1,464, ($2,401) was also higher than last year when it stood at £1,352. The range was from £5 and £53,250. The single largest category of complaint requiring full investigation was mortgages and lending followed by automated teller machines. Mr Shurman said most complaints investigated were much more complicated than in the past, especially the 21 per cent involving business accounts.

Three men face murder charge

Three men were last night charged with the murder of an Asian shopkeeper who was attacked with a brick outside his store in south Wales. Mr Mohan Kullah, 61, died in hospital on Tuesday, 10 days after being beaten unconscious. The three are already in custody after earlier appearing in court accused of causing Mr Kullah grievous bodily harm with intent.

Mr Kullah, a grandfather of three, had been in a coma, suffering from a double fracture of the skull. He was found in a pool of blood outside his shop on November 27 after going to investigate a disturbance.

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MANAGEMENT: MARKETING AND ADVERTISING

Outlook bright for ads

Worldwide advertising expenditure during 1994 looks as if it will have grown 6.4 per cent in current prices over the year, up from a July forecast of 5.5 per cent, reports Zenith Media Worldwide, the Saatchi & Saatchi-owned media-buying group*.

Zenith now says that the four-year outlook to 1997 looks the brightest since 1988, with "vigorous growth in prospect, even in mature advertising markets".

In the US, spending is set to rise 4.7 per cent in 1995 and 5.4 per cent the following year, stimulated by the presidential election and Atlanta Olympics. The spending recovery in Europe is "gaining consistency and momentum," says Zenith, and heading for 11 per cent growth by 1997.

The Japanese market will see modest annual growth of 2-3 per cent between 1995 and 1997, after a recovery of 0.3 per cent this year. In the rest of the Asia Pacific region, spending growth continues to accelerate and will reach 16.4 per cent by 1997, according to the forecasts.

Compound growth between 1994 and 1997 in the region, excluding Japan, should reach 26.5 per cent. Overall, advertising expenditure worldwide is set to grow 8.1 per cent in 1995, 9.8 per cent the following year, and 11.7 per cent in 1997, all at current prices.

Separately, Lintas Worldwide, the Interpublic-owned agency network, warns this week that the recession may be over economically in Europe "but psychologically it's not". There remains great caution among consumers and subsequently among advertisers.

Says Terry Rosenquist, head of Lintas Europe: "The recession has led to fierce competition, with the retail trade sector putting immense pressure on FMCG manufacturers. These in turn have cut ad spending."

Diane Summers

**Advertising Expenditure Forecasts. Zenith Media Worldwide, Bridge House, 63-65 North Wharf Road, London W2 1LA. Fax: 071 402 3891. £195*

Jeremy Hartley

The lure of Budapest: western companies or foreign-owned joint ventures account for 75-85 per cent of advertising spending

Ripples on the Danube

Advertisers in Hungary are putting their own campaign together, writes **Virginia Marsh**

These days neon lights pierce the Budapest skyline and slick posters on trams and at bus stops brighten up the city's once grey boulevards. Local pop stars advertise state-of-the-art western televisions, luxury cars and mobile telephones from billboards.

The campaign preoccupying Hungarian advertisers at the moment, however, is one aimed at promoting themselves.

"This is a relatively new and growing industry in Hungary, but one which is not well understood," says Ildiko Takacs, a former head of Young and Rubicam's local operation and president of the Hungarian chapter of the International Advertising Association (IAA). Her hope is that the IAA's lobbying will persuade the government and a sometimes sceptical public that the industry's old-fashioned regulatory framework needs to be liberalised.

Advertising is a flourishing sector in an economy which has shrunk by 20 per cent in the last five years. "Growth in the industry has been spectacular," says Peter Nagy, secretary general of the Hungarian Advertising Association. "Five years ago there were no billboards. Now we have 14,000. In newspapers and magazines you never used to see a full-page ad."

Nagy says spending on advertising jumped from Ft7bn (£40m) in 1989 to Ft33bn in 1993 and is likely to reach up to Ft42bn this year – even given average annual inflation of around 25 per cent.

It is also a sector in which western influence and dominance has been greatest. The severe recession has caused the country's traditional advertisers, big state enterprises and retail chains, to cut back. Western consumer goods and service companies, fighting for a share in newly opened eastern European markets, have filled the gap.

Western companies or foreign-owned joint ventures account for 75-85 per cent of advertising spending, according to HAA estimates. New local advertisers, notably banks and financial service companies eager to woo Hungary's growing middle classes, have quickly caught on to slick, western advertising techniques.

Western agencies have followed their international clients. "A decade ago the market was shared by a handful of companies. Now we have several hundred mainly small private companies and 18 multinationals with local offices or joint ventures," says Nagy.

Local agencies have lost business to the multinationals, which control more than two-thirds of the market, but are beginning to fight back. "The multinationals have greatly raised the quality of advertising. This has had a spill-over effect on local companies which have been forced to improve to survive," says Nagy. As the economy recovers, local companies will be well-positioned to attract business from the emerging private sector, he says.

But Hungarian advertisers complain that regulation has lagged behind the changes in the sector. The main aim behind their campaign is to press the country's new government to provide the industry with legislation in line with western European norms. The few regulations which exist date mainly from the 1970s.

"The main difficulty is that we're working in a 'grey area'. At the moment there are no definitions of advertising and therefore no framework for regulation," says Michael Parsons, spokesman for Philip Morris's central and eastern European division.

The previous conservative government produced several draft advertising bills but could never agree on a final version. Hungarians are divided over advertising, with many ambivalent towards the industry, says Nagy. "Many feel we have too much advertising. They are overwhelmed."

Another problem is western advertisements with little sensitivity to the local market. Judit Fekete, editor-in-chief of Propaganda Reklam, a leading local trade magazine, says: "Most of the big campaigns are global and are aired here with few changes. But many western advertisements don't fit into our way of living – for example, soap powder or detergent commercials filmed in huge, luxurious kitchens. Hungarians are shocked at the opulence. Few people in this country have kitchens like that."

She says campaigns made by western agencies for eastern markets are often not much better: "One car company showed Mr Kovacs – Mr Smith – choosing his first new car in 26 years. This type of ad is extremely patronising."

But the most contentious issue is a 1978 ban on advertising alcohol, tobacco and pharmaceutical products. "One of the worst aspects of this ban is that it is ambiguously worded," says Nagy. "The law forbids advertising which 'encourages the consumption' of alcohol and tobacco. We are constantly being asked whether this means a total ban or not."

Companies have found many ways to get around the ban. One is to simply ignore it, says Fekete. "The press is full of ads for banned products. The cost of fines is simply built in to the cost of the ad."

Sponsorship is the most popular legal way for alcohol and tobacco companies to promote their brands. Companies give their name to a sporting event or a music festival, which they advertise heavily.

Other ploys include distributing ashtrays, table-cloths, pens, coasters and other gimmicks emblazoned with brand logos. Cigarette companies have launched clothing and footwear lines and advertised these to spread their brand names.

Tobacco and alcohol companies argue that advertising merely influences consumers' choice of brand. But industry analysts say financial arguments are the most likely to convince the public and the government to accept more advertising and a limited lifting of the bans. Some estimate that adopting UK or German-style regulations – which allow tobacco and alcohol advertising in the press, posters at the point of sale – would inject as much as $100m (£67m) into the economy.

Takacs says: "One of the messages we need to get across in the campaign is that without advertising, the press is more expensive and less profitable. That isn't good for the public or for the government's tax revenues."

Ringing the tills

Retailers should focus on the phone, writes **Diane Summers**

Electronic home shopping may be the coming thing, but many UK retailers do not yet seem to have got to grips with the plain old telephone.

One in five customers phoning shops to find out about, for example, opening hours or availability of products fails to get through at the first attempt, and may decide to go elsewhere. The finding comes from research conducted by the Henley Centre, the forecasting group, for the British Retail Consortium and British Telecommunications.*

Henley describes the telephone as a "low-tech bridge to the high-tech future". The most sophisticated consumers, who are also often those with the highest disposable incomes, show the most interest in phone-based buying. "The first retailers to offer a credible telephone service could well gain real strategic advantage. Those retailers who cannot compete could soon lose position," the group warns.

Henley's findings on the state of retailers' telephone systems comes from a large "mystery shopping" exercise, using researchers posing as consumers, conducted in September. More than 800 outlets, including clothes, DIY and grocery stores, as well as travel agents, cinemas and restaurants, were phoned for Henley by specialist group MSS.

Of the unsuccessful calls, two-thirds were due to engaged lines, while the remaining third just carried on ringing. Of those that were successful, nearly 20 per cent took more than five rings to answer and a similar proportion were handed on to a second person to deal with.

These transfers took an average of 30 seconds – a long time to be left in what was generally a silent limbo, says Henley. Two-thirds told callers why they were being transferred, but only half were given the name of the person to whom they were being connected. Once passed on to a second department, almost all callers were asked to repeat their previous questions.

When the right person was found, staff had to leave the phone to track down information in a quarter of cases, with an average wait of 48 seconds, although almost a third had to wait up to three minutes. Shop staff seldom have all the information they need at their fingertips, despite the advanced technology being used for stock control, says Henley.

The "mystery" shoppers rated the manner of staff highly: "In most cases, staff sounded friendly, professional and happy to answer the query." Interestingly, the more complex the inquiries, the more motivated staff appeared to be to answer them. "With difficult questions, staff sounded happier, more friendly and more knowledgeable," observes Henley.

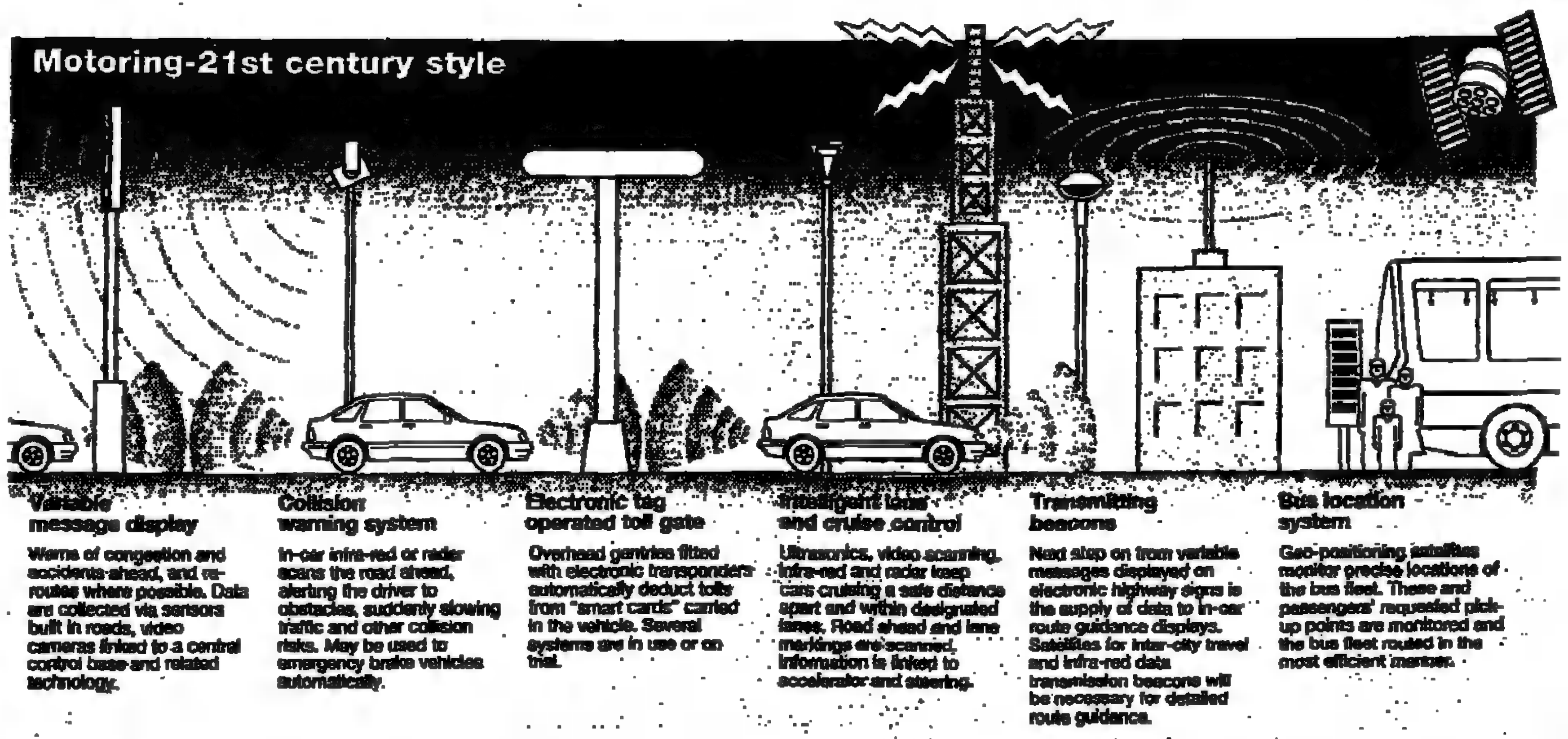
Clearly, retailers need to balance the needs of customers visiting the store with the demands of consumers on the telephone. One recommendation from the study is that retailers should consider installing automatic call answering systems to handle routine questions, such as opening hours and locations, while diverting more complicated queries to specially-trained staff.

Overall, Henley estimates that 78m calls a year are currently made to retailers in the UK – a figure which is forecast to grow to nearly 400m by the end of the decade as consumers increasingly expect to operate in a "teleculture".

A separate consumer study conducted for the report showed that, in spite of patchy performance, shoppers are reasonably happy with the telephone service they currently receive. But this cannot continue, Henley concludes. "Customers' expectations are rising. They are becoming more confident about complaining. And if they do not complain, they vote with their feet. Innovative operators in other sectors, such as First Direct, Next Directory and Direct Line all offer effective telephone services. Why not retailers?"

** High Street Teleculture. BT Retail Marketing, 2-12 Gresham Street, London EC2V 7AG. Fax: 071 606 2543. Free*

TECHNOLOGY



The new road sense

Telematics promises to revolutionise transport, writes John Griffiths

Government ministers from around the world and about 2,000 expert delegates met in Paris last week to explore the vast implications of transport telematics.

Telematics is the pooling of information and telecommunications technology to provide new systems and services. The message after three days of the first world congress on transport telematics is that the technology will:

- Bring radical change to how cars and trucks are designed and built, with significant safety advances such as automatic collision avoidance; radically change the way cars are used – drivers travelling on "intelligent" highways may even be denied direct control of the vehicles in which they are travelling, yielding control to roadside computers giving instructions to the car by infra-red beams.
- Create international networks of these "intelligent" highways, capable of guiding drivers across continents, around traffic jams and other obstructions to any chosen destination. However, they will also have controversial "Big Brother" capabilities of continually monitoring the location and speed of entire vehicle populations.
- Save at least Ecu20bn (£16.6bn) a year on the cost of congestion, accidents and environmental damage in the European Union alone, according to European Commission estimates.
- Create vast new markets for the manufacturers and servicers of telematics technology.

US expenditure on transport telematics alone is predicted to be nearly $10bn (£6.6bn) by the beginning of the next decade, according to the Commission's forecasts. In Europe, it estimates the EU market to equip cars with telematics technology will be worth Ecu6bn over the next 10 years.

"Intelligent" highways do not necessarily mean more highways. The technology is aimed primarily at adapting existing highway networks and greatly increasing the "intelligence" of cars to take the best advantage of them.

Vehicles will be able to "talk" to each other and with "intelligent" highway control and monitoring systems. There will be on-board computers, micro-sensors, satellite positioning, synthetic voice transmission, digital road maps, radio telephones, infra-red and hyper-frequency beacons and detectors.

Cars of the next century, for example, should be involved in far fewer accidents, making a big contribution to transport efficiency. Cars will be equipped with ultra-violet or infra-red headlamps for improved night vision. They will have a radar and infra-red based intelligent cruise control system, automatically maintaining a safe distance from the vehicle ahead, and use video image processing systems to stop straying between lanes. Should this fail and the car crashes, on-board sensors will automatically report the car's position to traffic controllers via the route guidance system in the dashboard which is in constant communication with a geo-positioning satellite.

The car will exchange transmissions with roadside beacons, also using mainly infra-red, receiving information on traffic congestion, with suggested alternative routes for the route guidance system. It will transmit, via the roadside beacons, information about its intended destination to regional control centres.

Most of this technology has already been developed under the just-concluded, eight-year Ecu900m-Prometheus collaborative research programme among Europe's car, truck and electronic systems makers.

Cost remains a problem – only volume production can reduce the current cost of several thousand dollars of some of the more complex systems. But some others, such as ultra-violet night vision, could be introduced now for $500 or less. There are other benefits. Not least, while environmentalists may shudder at Commission estimates that transport demand in the EU will double by 2010, they may take comfort in the fact that the more efficient use of highway space promised by the telematics revolution should mean less land will be taken for new highways.

With the technology at hand, the question for the world's transport authorities is how best to exploit it.

Among examples of what is possible, Philips Electronique of France demonstrated in Paris the latest developments in its satellite-based Carin in-car navigation system, capable of guiding a vehicle across France, through digital maps on a dashboard display. UK-based Racal Messenger showed Talon, a video-based system for automatic reading of vehicle registration plates – a potential boon for police use.

Trafficmaster, also from the UK, displayed its portable route guidance and traffic information system. The £200 unit – plus £19.50 a month airtime subscription – uses infra-red sensors and a radio unit mounted on motorway bridges and gantries. When sensors detect congestion, the information is radioed back to Trafficmaster's control centre at Milton Keynes and relayed 24 hours a day, to the map and information screens of subscriber units. The system covers all UK motorways.

It is the only system in the world operating in "real time" on such a scale, and adds substance to the contention of the European Commission that the heavy investments in transport telematics research made by European industry and research teams has provided a short-term technical advantage over competitors in North America and Japan. However, the Commission has just finished drafting an action plan for implementing transport telematics in the EU, to be presented shortly to the European Parliament, which warns the advantage is at risk unless the EU as a whole and member states co-ordinate better in key areas.

European manufacturers of vehicles and vehicle telematics systems believe that projects such as Prometheus have given the region a technological lead in many key areas. Prometheus, the biggest collaborative motor industry research programme undertaken anywhere in the world, had a spectacular finale in Paris in October, when more than 90 prototype vehicles demonstrated the complete array of telematics technology.

But developments are also moving rapidly in North America and Japan. The US Department of Transportation has just announced a "national automated highway" research programme – a $200m, seven-year venture with a GM-led consortium to build a demonstration "intelligent" highway capable of "convoying" vehicles: roadside sensors would place the vehicle under the control of computers linked to regional control centres. Vehicles would be bunched much more closely together than in normal driving, with the computer system operating brakes and accelerator by remote signal.

Such a system would use road space more efficiently. But many at the congress fear such a project may be overambitious. They point to the safety implications and the question of liability in case of accident. It is the belief that such systems lie further into the 21st century that has led Europe to concentrate more on autonomous systems for use in the car which help or warn drivers, rather than wrest control of the car from them.

In Japan, drivers are already using route guidance and in-car telematics aids. As Shoichiro Toyoda, Toyota's chairman, pointed out at the congress, some 700,000 Japanese motorists have already purchased such systems, 350,000 in the past year.

Thus while Europe might have a technological edge and North America the political will to lead, in manufacturing terms, the basis for a new industry once again appears to emerging first in Japan.

Worth taking the trouble

Roland Adburgham on technical advice for small companies

The most difficult thing we face," said John Emanuel, managing director of the consultancy Pax Technology Transfer, "is mind-set: 'I've got my car, my holidays – I don't want the trouble'."

He was telling a seminar about the common response of directors to the idea of using technology to expand their businesses. His view was echoed by other specialists who feel that many UK companies, especially small and medium-sized enterprises (SMEs), are too wary of technology transfer.

"There is a strong disinclination to change in this country," said Ian Harvey, chief executive of British Technology Group.

The seminar was at TransTech International, a fair organised in Cardiff last week by the Welsh Development Agency and partly funded by the European Commission's Stride programme, which aims to strengthen the innovation capabilities of SMEs in assisted areas. The fair sought to encourage companies to benefit from technology transfer.

"Innovation, or particularly technology transfer, is vital to long-term industrial health and growth," said Harvey, stressing it was as important for service companies as for manufacturers. "Technology transfer is not a zero-sum game. It is an international game of mutual benefit to the players."

He had a caveat. "Technology is often the key to innovation, but it is only part of the total mix."

Two basic approaches were outlined. A business could license out its own technology, earning fees or royalties. Alternatively, it could license in, or buy the rights to, technology from academic institutions or companies and organisations. "Companies need to scour the world for the technology they require – often it need not and should not be developed in-house," Harvey said.

While Harvey added that larger companies needed their own research and development base, Anne Powell, of the Academic Industry Links Organisation, observed: "R&D costs for SMEs often look extraordinarily high." She stressed the value of collaborative research. "Universities are still a very much under-used resource as far as UK companies are concerned."

Donal O'Connor, of the Licensing Executives Society in Britain and Ireland, agreed R&D had many uncertainties. "For small-to-medium companies, often the buying-in of technology and expertise is better than doing one's own research." Paying a royalty of 5 to 10 per cent of a product's sale price might seem high, but it could be minimal compared with the cost of an R&D department.

He said technology transfer "is used much more often by large companies than small, but in my view is more useful for small companies." He outlined the basic steps of technology acquisition as: identification of need; sourcing and assessment of technology; negotiation of the licence; and financing the deal.

In the search for suitable technology, O'Connor advised, much could be done in-house: through contact with government and support agencies, trade literature, patent searches, trade associations, innovation centres and venture capital firms. SMEs, despite constraints on management time, should initially do much of their own technology sourcing to enable them to understand the process.

But Emanuel felt companies always needed help in seeking ideas and strategic partners, with help from consultants. A searcher might need to identify a couple of hundred projects before shortlisting 10 to 15 for board discussion. Typically, the time taken to reach a licensing agreement is six to 18 months.

Roland Whaite, of the UK Patent Office, said much duplication of research could be saved by looking at patent disclosures – Hitachi, he mentioned, employed about 150 staff to search patents continuously. If people did not examine patents, they ran the risk of missing much information which was not published in any other form.

PEOPLE

Green adviser for Jupiter Tyndall

Stanley Johnson, the ebullient environmentalist who recently penned what many deem to be one of the leading tomes on the Rio earth summit, is joining the "Green" advisory committee at investment managers Jupiter Tyndall.

Johnson will join a team advising the City of London's longest-established environmental investment company. Jupiter Tyndall has two "Green" funds; the International Green Investment Trust and The Jupiter Ecology Fund. Reflecting the still embryonic status of ethical funds, the two account for just £50m of the £4.2bn Jupiter Tyndall has under management.

The Jupiter advisory committee comprises three familiar environmentalists who help to shape the research, methods and priorities of the research department. Johnson, who is also an adviser on environmental matters to Coopers and Lybrand, should help to sharpen the committee's teeth in deciding in which companies the funds should be invested.

Apart from serving in a variety of environmentally-sensitive positions at the European Commission, he sat as a member of the European Parliament from 1979-84.

Johnson's arrival represents a shot in the arm for Jupiter Tyndall after the departure earlier this year of Tessa Tennant, the high-profile campaigner on ethical investment issues, together with other members of the ethical investment team to National Provident Institution.

Tennant's move was followed by the resignation of the entire Advisory Committee, which is now gradually being replaced. NPI, which has had relatively limited exposure to environmental funds, wants to beef up its standing in ethical investments for pension fund clients.

■ Mike Harrison, head of the environment programme at the Royal Society for the encouragement of Arts, Manufacture and Commerce (RSA), is stepping aside to become a consultant on scientific and environmental issues to the organisation. The name of his successor has yet to be announced. *Haig Simonian*

Waldegrave's thinking CAPs

William Waldegrave, agriculture minister, plans to turn the government's long-term antipathy towards the Common Agricultural Policy into clear proposals for reform by next year. He has just announced the appointment of a new group – chaired by him – which will discuss ideas on all aspects of UK policy on the CAP.

Waldegrave believes the CAP will have to be reformed extensively before it can accommodate enlargement to eastern European countries. He has charged his new group of 11 strong-minded individuals from all sectors of the farming and food industry with suggesting imaginative and practical ways to develop government thinking on the subject.

The members of the CAP committee include Bridget Bloom, who was the FT's agriculture correspondent from 1987 to 1992 and now sits on the Meat and Livestock Commission and the Forestry Commission, and Fiona Reynolds, director of the Council for the Protection of Rural England.

Many of the members have farming interests: Chris Haskins, chairman of dairy group, Northern Foods, lives on a farm in east Yorkshire and Ewen Cameron farms in Somerset and is vice chairman of the Country Landowners' Association. Poul Christensen farms in Oxfordshire and Dorset and is soon to join the board of Milk Marque, the farmers' dairy co-operative.

Helen Browning is an organic farmer and chairman of the British Organic Farmers. Lord Plumb is a member of the European Parliament as well as a farmer and former president of the National Farmers' Union.

In addition, Waldegrave has included four academics: Professor Allan Buckwell from Wye College, University of London, Graham McConnell, principal of Harper Adams Agriculture College in Shropshire who worked as an agricultural adviser in New Zealand, David Pearce, professor of environmental economics at University College, London, and Sean Rickard, lecturer in business economics at the Cranfield School of Management, who was until recently chief economist at the NFU.

■ The government has announced the appointment of a new chairman of the Forestry Commission to succeed Sir Raymond Johnstone, who has retired. Sir Peter Hutchison, chairman of Hutchison and Craft insurance brokers, takes on the top post at the Forestry Commission at a crucial time for the industry.

He will preside over the transformation of Forest Enterprise, the commercial arm of the Commission, into a Next Steps agency to be run in a more business-like fashion. This follows the government review of forestry which decided against privatisation in August.

The Forestry Commission is still a government department, and Forest Enterprise will be run in a more commercial way, but will still be answerable to the commission. The government's plans for Forest Enterprise have been criticised by environmental groups as a way of privatising by the back door. As part of a government working party Sir Peter recently advised the government on the development potential of the Loch Lomond and Trossachs areas of Scotland. *Deborah Hargreaves*

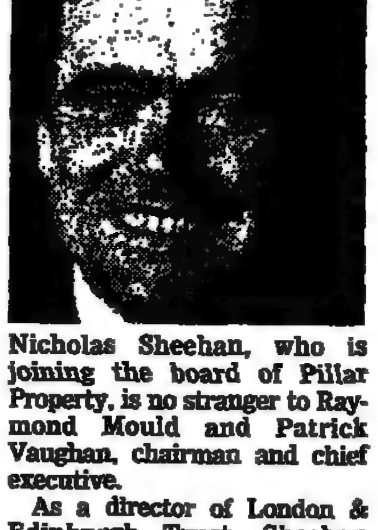
■ David Thompson, chairman of Gestetner Holdings and vice-chairman of the London Regional Transport Board, has been appointed chairman of the COMMONWEALTH INSTITUTE.

■ John Hayward, a director of EBS Pensioneer Trustees, has been elected chairman of The ASSOCIATION OF PENSIONEER TRUSTEES.

■ Stuart Sawle, chairman and chief executive of the Sysop Group, has been appointed chairman of council of the INSTITUTE FOR THE MANAGEMENT OF INFORMATION SYSTEMS.

■ Maria Moloney, general manager, marketing and business development, at Harland and Wolff, has been appointed a member of the INDEPENDENT TELEVISION COMMISSION.

Pillars of property boom reunite



Nicholas Sheehan, who is joining the board of Pillar Property, is no stranger to Raymond Mould and Patrick Vaughan, chairman and chief executive.

As a director of London & Edinburgh Trust, Sheehan rode the 1980s property boom alongside Mould and Vaughan, who ran Arlington Securities before its acquisition by British Aerospace in 1990.

LET was floated in 1983 with a market capitalisation of £24m and was acquired near the peak of the market, for £490m, by Swedish insurance group SPP. When SPP stepped in, Sheehan took over as chief executive and stayed through the depths of recession – including LET's £448m loss in 1992 – before resigning in March this year.

"We used to look over the fence to see what they were up to at Arlington," says Sheehan. "The corporate styles of the two companies were always similar – a small team with lots of ambition. I am looking forward to getting back into that environment."

While Sheehan's role at Pillar has not been closely defined, he will be seen as a replacement for Robert Maxted, who resigned as property director in October having been with the company since its formation in 1991. *Simon London*

■ Peter Badcock, formerly finance director and company secretary of Bredero Properties until it was acquired by Slough Estates, has been appointed finance and operations director of CAPITAL SHOPPING CENTRES.

■ Jim Scott has been promoted to director of the south region for Hall & Tawse Scotland, part of RAINE.

هكذا من الاصل

Floundering on a sea of cliché: Emma Thompson, Arnold Schwarzenegger and Danny DeVito in 'Junior'

Cinema/Stephen Amidon

Arnie's natal attraction

JUNIOR (12)
Ivan Reitman

ABOVE THE RIM (15)
Jeff Pollack

THE PUNK & THE PRINCESS (15)
Mike Sarne

THAT'S ENTERTAINMENT! III (PG)
Bud Friedgen and Michael J. Sheridan

Junior is the sort of comedy that relies on a single, big concept for its laughs. In this case, it is the spectacle of Arnold Schwarzenegger pregnant. What better way to pack theatres with sniggering fans that to cast Arnie as a research scientist who impregnates himself with a fertilised egg to prove that his experimental cure for miscarriage is effective?

But a funny thing happens on the way to the box office – the sight of Schwarzenegger pregnant is considerably less hilarious than director Ivan Reitman intended. While the thought of the world's foremost macho hero carrying a child seems at first to be the pinnacle of gender dissonance, the strange fact is that Arnie does not look all that different from normal with a bun in the oven. After all, there has always been something faintly prenatal about the guy, with his bulging pectorals, venous flesh and stiff-backed gait. The extra bit of distension is hardly noticeable. Once that rippling stomach begins to bulge, you find yourself thinking that if any man can carry a child, it is Arnie.

Robbed of its big shock value, the film flounders in a sea of cliché. Writers Kevin Wade and Chris Conrad fail to milk this potentially fertile subject for its satiric worth, while Reitman foregoes wit for a parade of visual gags and tame one-liners. Despite a welcome breath of worldly sarcasm from Danny DeVito, the film keeps to the sentimental middle ground as Arnie decides to bring the child to term, a decision which allows him to get in touch with his feminine side. So instead of cutting satire on the often bogus politics of the "new man", we get faithful old chestnuts about morning sickness, bizarre food cravings and the importance of family values. What few potentially funny lines exist are hopelessly mangled by Schwarzenegger's ham-fisted delivery.

And though Reitman and company toil laboriously to explain how a fertile egg might be lodged in the male body, they then neglect to mention how a wombless man could possibly nourish a foetus. The film has a sheen of science, but it is ultimately deeply illogical. But its most disheartening aspect is the presence of Emma Thompson who, cast as Arnie's love interest, seems completely at a loss. She had better watch out – the massive amount of good feeling she has generated with her Merchant/Ivory work will dissipate very quickly if she insists on involvement with such tired fare as this.

★

Despite a welter of rap music, urban slang and noisy violence, *Above the Rim* is actually a deeply, even quaintly, old-fashioned movie. It tells the story of a young Harlem basketball star (Duane Martin) who tries to use his athletic prowess to escape the poverty, drugs and violence of the ghetto. Along the way he is tempted from the path of righteousness by a local gang-banger (Tupac Shakur) while also contending with a former basketball hero who is courting his mother. Not surprisingly, the whole thing winds up in a noisy shoot-out (first with basketballs, then with bullets) in which good overcomes evil.

Writer/director Jeff Pollack keeps things moving along at a fast and furious pace, and his depiction of the high-pressure world of urban basketball is assured. He is greatly aided by some sterling performances, particularly by Martin, Shakur and Marlon Wayans as the neighbourhood clown. Where the film suffers is in its over-reliance upon on-court action and its supremely simplistic morality – virtue is rewarded, heroes prevail and the bad guys are the ones wearing black basketball jerseys.

The Punk & The Princess, on the other hand could have benefitted from a bit more simplicity. This unfortunate attempt to set *Romeo and Juliet* in contemporary Notting Hill is a messy stew of confused pretension and overwrought trendiness. The film concerns an aimless young punk (Charlie Creed Miles) who falls in love with a rich American girl (Vanessa Hadaway) when he stumbles upon her performing as Juliet at the Gate Theatre. Their affairs sets off all the usual gang rivalries and familial ructions, resulting in fights, stabbings and ultimately death.

Director Mike Sarne wears neither his learning nor imagery lightly – the film is fraught with hackneyed Shakespearian references, most notably a midnight balcony scene, a swordfight with pool cues and a very dodgy reference to "Star-cross'd lovers". There are some nicely done knockabout scenes between Miles and his mates, though these are ultimately sunk by the film's leisurely pace, careless camerawork and some truly appalling American accents.

★

That's Entertainment! III is another welcome raid on the archives of MGM's legendary musical division. While it is hard to imagine how anybody could go wrong compiling this material, director Bud Friedgen and Michael J. Sheridan have concocted a skilful piece of nostalgia, including not only standards from the likes of Esther Williams, Gene Kelly and Debbie Reynolds, but also a number of gems scooped from the editing room floor. Among these prized out-takes are Cyd Charisse brilliantly performing a dance number which Joan Crawford ultimately turned into screen suet, and Judy Garland's first use of her trademark half-tuxedo in a scene inexplicably cut from *Easter Parade*.

There is also a remarkable sequence in which two takes of a Fred Astaire number are juxtaposed. They duplicate each other move-for-move in a stunning demonstration of the great dancer's sublime perfection. But the most memorable contribution to the film comes from Lena Horne, who with dignified yet justifiable anger protests at not being given the lead in *Showboat* for the simple reason that she was black. Her worthiness for the role is proven beyond doubt when her performance is compared with Ava Gardner's rather shaky, dubbed effort. It is a sad commentary on contemporary films that the stuff they used to leave out makes for better viewing that much of what they now put in.

Theatre in London

A Christmas Carol

To see Charles Dickens's *A Christmas Carol* onstage is to know again, with a frisson of joy, how theatrical its author's instincts were.

What, I wonder, would he have made of the *coup de théâtre* with which the Royal Shakespeare Company's new version of *A Christmas Carol* opens?

The panoramic view of London in dark silhouette, dominated by the dome of St Paul's, lifts yards into the sky – and, from the blackness beneath, there emerge people, also in black: in Bible black, indeed, for Marley's funeral. I hope Dickens would have marvelled at all this, and at much that follows in Ian Judge's staging of John Mortimer's new adaptation.

This *Christmas Carol*, following the haunting RSC precedent of Trevor Nunn's *Nicholas Nickleby*, proceeds on three main levels: as a series of stage pictures, as a stage elucidation of Dickens's text, and as a collage of Victorian Christmas music. Sometimes the three come thrillingly together: as when Scrooge snuffs out the Spirit of Christmas Past. We see the conical snuffing-cap pushing the Spirit down into (and through) the ground; we follow Scrooge's exhausting travail much as Dickens described it; and meanwhile the scene is watched by a chorus of Victorians in black, who sing "Hark the herald angels sing" with warning fierceness. The melodramatic excitement, the psychological intensity, the sense of Christmas as a jubilantly lyrical experience that is being threatened by Scrooge – all these are there together.

Visually, the production is consistently excellent – thanks in particular to John Gunter's set, Deirdre Clancy's costumes, and Nigel Levings's lighting. Verbally, Mortimer's text is first-rate; he is plainly in love with Dickens as both sound and sense. And so are most of Judge's RSC actors, most of them playing several roles each. A pity that he lets them make too little of some lines (Scrooge "carried his own low temperature always about with him") and some episodes (Belle breaking off her engagement to a younger Scrooge).

But where the production is more frequently flawed is with Nigel Hess's music. Most of the onstage singing is weak, but the taped music and orchestrations are worse. The difference a few live instruments – and less amplification – would make! As an arranger, he could have struck more gold from his material; but since his material is mainly the classic Christmas carols we all know, the perfect Dickensian fusion of generosity and sentiment is achieved now and then.

Clive Francis is a first-rate Scrooge, an antique crustacean who manages to glow friskily once he learns to drop his shell. Paul Greenwood and Polly James do good work as the tender Cratchit parents, as do Philip Quast and Sara Weymouth as Scrooge's laughing nephew and his wife, Cherry Morris and Peter Warnock as the bubbling old Fezziwigs. The Spirit of Christmas Present (John Kane) is too bombastic, and Christmas past (Stephen Jean) too mild; they should be Virgil to Scrooge's Dante. Marley's ghost – so plainly modelled on Hamlet's papa – is over-miked and under-chained.

But the 18-foot Christmas Yet To Come, hooded and cloaked like a Grim Reaper with only two skeletal claws visible, is splendid. The party scenes are all infectious. And the finale, with snow falling through the hovering Christmas trees and rooftops onto the cast, whose black attire is now illumined by scarlet winter scarves, is ideal.

Alastair Macaulay

Barbican Theatre, EC2

The Boat Plays

As a mischievous antidote to Christmas jollification, the Gate has come up with *The Boat Plays*, a trio of stern morality plays by the 16th century Portuguese playwright Gil Vicente. Set just the other side of death, these three short pieces – *Boat to Hell, Boat to Purgatory* and *Boat to Heaven* – introduce a procession of the recently deceased, which arrives on the foreshore where the boats are berthed, to be assigned seats in the appropriate vessel by two ferrymen, Lucifer and God's Angel.

Needless to say, it is the Boat to Hell that is soonest booked up: in Vicente's scolding satirical portrait of the afterlife even the Pope has to fight for a place on the barque to heaven. The Queen of Portugal also finds she has no ticket to paradise: this is daring writing from a man clearly appalled at the ethical behaviour of his country, intent on warning the Court that gold fever might lead to spiritual bankruptcy. The pieces are driven by sardonic humour and the possibility of drawing on the terror of fire everlasting.

It is hard to convey this state of mind to a contemporary audience, but David Farr's vivid, imaginative production goes a long way. For a start, it literally takes you into the world of the plays: Angela Davies' astonishing, beautiful set transforms the entire auditorium into a Portuguese harbour. The walls are clad in dark, stained wood, the floor, too, is a rickety deck of planks, and the whole is lit to match the mood of each play – cold and cheerless for the prospect of Purgatory, warm and flickering for the hope of heaven. The audience is seated, judiciously, in the Boat to Purgatory, allowing leeway for reform during the course of the evening – an outcome made more likely by the pew-like hardness of the wooden benches.

The set, the visually witty direction and David Johnston's spitfire translation lends life and atmosphere to what could remain a rather distant ritual. The plays are not as dynamic or interesting as our mystery plays: rather, they work as a theological debate and an exposé of the shabby conduct of Portuguese society – we see lackadaisical workers (who go to Purgatory), corrupt pillars of society (who go to Hell) and thoroughly rotten heads of church and state (who are given a chance to reform). As such the pieces work their way through a queue of souls, and the only dramatic conflict lies in what happens to each.

Farr's production works hard: he gives each piece a different mood and he emphasises the play's pageant-like qualities by using puppets, masks and clever visual composition. The cast revels in the funny, outsize characterisation of each boat passenger and the production is whipped along by two blazing performances from Tony Curran and Phil McKee, both red-haired Scots, as the fearsome ferrymen.

Like many a sermon, the trilogy goes on after it has made its point: the last piece, in particular, drags. But it offers an intriguing glimpse into the belief of that world – rather like stepping into a church and seeing its carved figures come to life – and Vicente's warning to get your spiritual life ship-shape calls clearly across nearly 500 years.

Sarah Hemming

Music in London/David Murray

Three pianists of note

Last weekend we listened to two fast-rising pianists in their mid-20s playing keyboard warhorses, and between them the vaguely ageless Melvyn Tan gathering 19th-century rosebuds for his 1839 fortepiano. Heard in sequence, they invited provocative (and invidious) comparisons. With young Lars Vogt – second prizewinner at the 1990 Leeds Competition: I would have placed him first – came the bonus of an enterprising London Symphony programme; Richard Hickox conducted Malcolm Arnold's Fifth Symphony and a forgotten early Elgar cantata, *The Black Knight*.

Glancing at Boris Berezovsky's Wigmore programme for Saturday, one's spirits sank a little. It is four years since he won the Tchaikovsky Competition, and thereupon began an international career, but here he was offering *the* standard Russian-virtuoso menu: Mussorgsky's *Pictures at an Exhibition* and Ravel's *Gaspard de la nuit* and *La Valse*. It was enlarged by the latter's gentler *Valses nobles et sentimentales*, and a raw, literal transcription of Rimsky's version of the former's *Night on Bare Mountain*.

In fact Berezovsky excelled in that, translating the unpianistic writing into vividly plausible "orchestral" colours and drama. His *Pictures*, however, were chiefly remarkable for their lack of any interesting ideas at all – unless you count taking the seminal Promenade so fast as to suggest that instead of promenading around the exhibition the composer was striding straight through it, looking neither to right nor left. All the other character-pieces were conventionally read, without an individual spark, though delivered with athletic efficiency and much noise.

In Ravel's *Gaspard*, "Ondine" had an indeterminate right hand, swollen dynamics and a perfunctory solo lament for the mermaid. Berezovsky seems to lack the knack for sustaining expectation and suspense: "Le Gibet" and "Scarbo" sagged limply in their hushed middles. The refined *Valses* needed more distinctive stamps, like the *Pictures*, and far more sensitive appreciation of Ravel's classical *pudeur*. *La Valse* was very loud from the start and increasingly inaccurate. This rather dashing pianist can surely do better.

At the Barbican the next afternoon, Melvyn Tan gave us one of his inimitable exhibitions of pure (if slightly precious) character on a period instrument. He is shameless about his graces – here a suspension of breath, there an exquisitely drawn-out phrase – but he rollicks wholeheartedly in his music.

Reduced to their original salon-scale, Mendelssohn's op. 67 Songs without Words and the four great Schubert Impromptus of D935 still sounded charming and vital. Tan revelled in bright effects that could not be reproduced on a 20th-century grand piano – and his artful innocence is always a tonic. Both Schubert's A major Sonata, D664, and Schumann's no. 2 in G minor contained similar illuminations, but one pined nevertheless for the sustaining power of the modern instrument.

With the LSO that evening, Vogt gave the freshest, most searching and most brilliantly accomplished account of Rakhmaninov's "Paganini" Rhapsody that I have heard in a long while. Sulphurous in all the right places (and cleanly articulate), positively elevated in the almost-*kitsch* 18th variation, pausing for pregnant thought between others: how many 24-year-old pianists combine such mature authority with the *élan* of youth?

There, the LSO were not always spot-on. Probably their rehearsal-time went to Arnold and the unknown Elgar. Hickox conducted Arnold's Seventh immaculately, I thought; its wild juxtapositions of formal and popular, ingratiating and surly by turns, got full-blooded realisations and ultra-smooth gear-shifts. There is a kind of towering fury behind this strange symphony and we were made to feel it.

Young Elgar's 1893 *Black Knight*, with the London Symphony Chorus, proved comparatively tame, though worth a one-off revival. It was not a precocious score, for he was already 36. A few pungently characteristic ideas; too much routinely heavy-duty Victorian orchestration, with tuba; a more than usually dreadful, mawkish Longfellow text (after Uhland), awkwardly set with many false emphases. One was grateful to have heard it, but felt no pressing need for deeper acquaintance.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERTS
Het Concertgebouw Tel: (020) 671 8345
● Nikolaus Harnoncourt: conducted by the Royal Concertgebouw Orchestra plays Schumann and Bruckner at 8.15 pm; Dec 8, 9
● Sir Georg Solti: with the Royal Concertgebouw Orchestra and pianist Evgeny Kissin conducts Beethoven and Bartók at 8.15 pm; Dec 14

BERLIN

CONCERTS
Berlin Philharmonic
● Berlin Philharmonic Orchestra: conducted by Claudio Abbado plays Monteverdi, Stockhausen and Tchaikovsky at 8 pm; Dec 8, 9, 10, 14, 15
Konzert Haus Tel: (020) 309 21 02/21 03
● Berlin Choral Society: with the New Berlin Radio Orchestra plays Dessau and Bach at 8 pm; Dec 9
OPERA/BALLET
Deutsche Oper Tel:(030)3 419249
● Das Rheingold: by Wagner. Conductor Horst Stein, production by Götz Friedrich at 7.30 pm; Dec 9
● Siegfried: by Wagner. Conductor Horst Stein, production by Götz Friedrich at 5.30 pm; Dec 14
Staatsoper Unter den Linden Tel: (030) 2 00 4762
● Die Verurteilung des Lukullus: by Paul Dessau. Conductor Hirsch, production by Berghaus at 8 pm; Dec 15
● Die Zauberflöte: by Mozart. Conductor Daniel Barenboim, production by August Everding at 7 pm; Dec 14
● La Traviata: by Verdi. Conducted by Rizzi, production by Kirst. In Italian at 7 pm; Dec 11 (6 pm)

LONDON

CONCERTS
Barbican Tel: (071) 638 8891
● Sir Colin Davis: conducts the London Symphony Orchestra in a concert to mark Finnish Independence day. Music of Sibelius, Mozart and Stravinsky at 7.30 pm; Dec 8
● The Dream of Gerontius: by Elgar. The London Symphony Orchestra with mezzo-soprano Anne Sofie Von Otter conducted by Sir Colin Davis at 7.30 pm; Dec 11, 15
Festival Hall Tel: (071) 928 8800
● Beethoven Series: Philharmonia Orchestra conducted by Nikolaus Harnoncourt. Symphony No 8 and 6 (Pastoral) at 7.30 pm; Dec 10
● Choral Classic Series: Royal Philharmonic Orchestra with soloists Judith Howarth (soprano), Ruby Philogene (contralto), Ian Bostridge (tenor) and David Wilson-Johnson (bass) perform Handel's, 'The Messiah' at 7.30 pm; Dec 9
● International Series: The London Philharmonic conducted by Bernard Haitink plays Berlioz (Overture, Benvenuto Cellini), Ravel (Mother Goose) and Vaughan Williams (Symphony No.5) at 7.30 pm; Dec 15
● Philharmonia Orchestra: conducted by Charles Dutoit plays Bizet, Goldschmidt and Prokofiev at 7.30 pm; Dec 8, 13
● Royal Philharmonic Mariinsky-Kirov Series: Royal Philharmonic Orchestra with conductor Valery Gergiev mezzo-soprano Larissa Diadkova and the Royal Choral Society perform Prokofiev and Rimsky-Korsakov at 7.30 pm; Dec 12
● The London Philharmonic: conducted by Bernard Haitink, with soloists Karita Mattila (soprano), Ann-Murray (mezzo-soprano), Keith Lewis (tenor), Robert Lloyd (bass) and the London Philharmonic Choir perform Beethoven Symphonies Nos. 1 and 9 (Choral) at 7.30 pm; Dec 11
GALLERIES
Anthony d'Offay Tel: (071) 499 4100
● Andy Warhol: early drawings by the artist; to Jan 28 (Not Sun)
Royal Academy Tel:(071) 439 7438
● The Glory of Venice: a major survey of Venetian art in the 18th century; to Dec 14
OPERA/BALLET
English National Opera Tel: (071) 632 8300
● Ariadne on Naxos: by Strauss: A Graham Vick production at 7.30 pm; Dec 8, 14
● Figaro's Wedding: in house debut for conductor Derrick Inouye at 7 pm; Dec 10, 13, 15
● Khovanshchina: new production of Mussorgsky's opera. Director Francesca Zambello at 6.30 pm; Dec 9, 12
Royal Opera House Tel: 071 240 1200
● Ashton Remembered: celebration of founder choreographer Fredrick Ashton. Includes pieces by Mendelssohn, Offenbach, Massenet and Walton at 7.30 pm; Dec 9, 15
● La traviata: by Verdi. A new production by Richard Eyre. Georg Solti conducts for the first five performances, then Phillipe Auguin. In Italian with English surtitles at 7.30 pm; Dec 8, 13
● Mixed Programme: includes Fearful Symmetries choreographed by Ashley Page, and Symphony in C by Bizet, choreographed by George Balanchine at 7.30 pm; Dec 10 (2 pm), 14
● The Sleeping Beauty: a new production of Tchaikovsky's ballet. Produced by Anthony Dowell, set designed by Maria Bjornson at 7.30 pm; Dec 12
THEATRE
Lyric Hammersmith Tel: (081) 741 2311
● Mirandolina: by Carlo Goldini, directed by Dalia Ibelhauptaite. With Caroline Quentin at 7.30 pm; to Dec 10 (Not Sun)
National, Lyttelton Tel: (071) 928 2252
● The Children's Hour: by Lillian Hellman, directed by Howard Davies at 7.30 pm; Dec 15

NEW YORK

OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● Don Giovanni: by Mozart, sung in Italian at 8 pm; Dec 10
● Lady Macbeth of Mtsensk: by Shostakovich at 1.30 pm; Dec 10
● Madama Butterfly: by Puccini at 8 pm; Dec 8, 14
● Peter Grimes: by Britten. English at 8 pm; Dec 12, 15
● Rigoletto: Italian opera by Verdi at 8 pm; Dec 9, 13
THEATRE
Joseph Papp Public Theatre Tel: (212) 598 7150
● Simpatico: directed by Sam Shepard. Set in the world of thoroughbred horseracing, with Beverly D'Angelo, Marcia Gay Harden and Ed Harris at 8 pm; to Dec 11 (Not Mon)

PARIS

CONCERTS
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● French National Orchestra: Jeffrey Tate conducts Beethoven Symphonies Nos. 2 and 3 at 8 pm; Dec 15
OPERA/BALLET
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● Kitege: by Rimsky-Korsakov. Director Valery Gergiev at 7.30 pm; Dec 10, 11
● Sadko: by Rimsky-Korsakov. Musical director Valery Gergiev at 7.30 pm; Dec 9
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Le Lac des Cygnes: by Tchaikovsky. Choreographed by Rudolf Nureyev. Conducted by Vello Pähn/Ermanno Florio at 7.30 pm; from Dec 9 to Dec 31 (Not Sun)

TURIN

OPERA/BALLET
Teatro Regio Tel: 011 8815 241
● Lo Schiaccianoci: ballet in three parts by Tchaikovsky. Performed by the Kirov company, St Petersburg. Sun mat only at 3 pm; from Dec 10 to Dec 18 (Not Mon)

WASHINGTON

CONCERTS
Kennedy Centre Tel: (202) 467 4600
● An Evening of Opera and Chamber Music: Selections from a new opera and chamber music by Soong Fu Yuan. With soprano Yan Yan Wang, tenor Robert Brubaker, bass Don Yule, the Camerata Quartet and conductor Fy Soong at 7.30 pm; Dec 11
GALLERIES
Corcoran Tel: (202) 638 3211
● Family Lives: photographs by Tina Barney, Nic Nicosia and Catherine Wagner. Exhibition explores the power of photography to subvert or reinvent our experience and understanding of events and relationships; from Dec 10 to Feb 13
OPERA/BALLET
Kennedy Centre Tel: (202) 467 4600
● The Nutcracker: music by Tchaikovsky. Presented by the Joffrey Ballet, choreographed by Robert Joffrey. No show Dec. 12th, mats at 2pm otherwise at 8 pm; to Dec 17
THEATRE
Gunston II Tel: (703)
● An Evening with Tom Stoppard: presented by the Washington Shakespeare Company is a series of three one act plays by the British playwright at 8 pm; to Dec 17

WORLD SERVICE
BBC for Europe can be received in western Europe on Medium Wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
(Central European Time)
MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Divided by philosophy, not practice

BOOK REVIEW

LOOKING AT THE SUN
By James Fallows
Pantheon, $25, 517 pages

Just as looking at the sun causes blindness, so gazing at Asian's fast-emerging economic and social systems can dazzle the mind. James Fallows, Washington editor of the Atlantic Monthly, comes to the rescue, by holding up a polarising filter, through which one clear message can be seen. The main secret of success in the Japanese economy is the country's ability to apply a judicious mixture of government intervention and the free market, he argues.

The government picks targets; the market selects the winners to achieve those targets. Add to that the Asian respect for wider collective interests over individual freedom – only visible in western democracies during times of war – and you have an unbeatable recipe.

Such theories make Fallows a leading proponent of revisionism, the school of thought that holds that Japan is so different from the west that foreign pressure is the only way to bring change. For that reason, *Looking at the Sun* is unpopular in Japan – in the mistaken belief that it is anti-Japanese.

In fact, Fallows goes out of his way to argue that the west would do well to follow the example of some of Japan's Asian neighbours in adapting some of the strengths of Japanese capitalism to their own systems. The weakness of this book is not that it is anti-Japanese, but too pro-Japanese in paying so little attention to the way in which recent political and economic upheavals have exposed weaknesses in the system.

Japan's model is not as mysterious or unfair as many free-market minded critics, especially the US government, believe, argues Fallows. America's own economic power was born from its ability to violate the principle of *laisser-faire*. The federal government used high import duties to protect the domestic steel industry in the 19th century and did not start espousing free markets until after it had become strong, in the 1940s. Britain and Germany followed similar patterns.

Japan is only following the west's well-tried path, for example, by forcing foreign electronic companies in the 1960s and 1970s to license semiconductor chip technology to Japanese, as a condition of doing business in Japan. That laid the base from which Japan grew to dominate the world chip market by 1990.

This does not mean that the US should try to adopt the Japanese model wholesale, says Fallows. Rather, it should think back to the strategies that helped it succeed in the first place. Despite the rise of multilateral trading rules, the world economy still turns on the battle between the weak and strong, leaders and followers, rather than on the fair and unfair, he argues.

What makes the strong succeed? Japan and its most successful neighbours have little time for the philosophy of competition between individuals, as advocated by economist Joseph Schumpeter and seen as one of the great assets of the US.

Rather, they follow Friedrich List, the 19th-century German economist, who believes that a nation's wealth depends on its skill at producing, rather than consuming, and that individual wealth is therefore dependent on that of the group. It is no accident, argues Fallows, that List is little known in the US and popular in Tokyo and Seoul.

Japan's List-like ideas set the tone of the rest of Asia's economic development, just as Japanese government assistance, commercial lending, technology and industrial power, set the pace. But beware of thinking of east Asian countries as like-minded planets of the Japanese sun.

Fallows divides Japan's neighbours into four sets. First, there are countries experiencing growth without development, such as Thailand, Malaysia and Indonesia. Their economies are primarily objects of Japan's dynamism, as cheap assembly sites and fast growing markets for Japanese goods. They are driven by forces beyond their control, unable to steer their own economic destinies. They are almost economic colonies of Japan.

Second come countries on the sidelines, such as Burma, North Korea, the Philippines, Vietnam, Cambodia and Laos, which have missed out on the region's growth through bad leadership, natural disaster or bad luck. They could well prosper in the future, but for the time being are left in the shade.

Third are the contenders, whose systems closely resemble Japan's – South Korea, Taiwan and Singapore. They could catch up with Japan, in the sense of developing independent technology, commercial and political leverage, though they could never surpass Japan in size, predicts Fallows.

The final category is the wild card, China. It could either come, within 50 years or so, to dominate east Asian economies more completely than Japan does now, or it could stagnate indefinitely. Either way, the economic future of Hong Kong and Taiwan will be increasingly bound to China.

Above all, one thing will determine the chances of success of Asia's different categories of player. That will be their governments' ability to borrow Japanese-style industrial and trade policy to build up the productive base of their economies.

Here, Fallows has no truck with Washington's present line that Asian countries should adopt western-style free markets, and that their governments should intervene as little as possible.

He advocates, instead, the European Union strategy that the state's job is to set rules that best serve broad economic interests. One example is local content requirements, which put pressure on Japanese manufacturers to build plants in Europe in the 1980s. The Europeans interfered with the free market, yet ended up expanding world trade. Japan and Asia are not as different from the west as they look.

William Dawkins

ECONOMIC VIEWPOINT

The political itch to spoil it all

By Samuel Brittan

To anyone of any political party who was pleased that the UK was showing the best prospect of sustainable non-inflationary growth for more than 30 years, the government's defeat on the second and final stage of the planned imposition of value added tax on domestic fuel was an irritating self-inflicted blow.

Many Conservatives fail to realise quite how remarkable the change in the economic prospect has been. Unemployment started to turn down far earlier than normal. Pay rises have remained subdued and productivity has risen faster than expected. As a result unit wage costs have fallen. Sterling has remained steady and growth has been increasingly export-led and is set to have a strong investment component. Even the published current balance of payments deficit has been disappearing – and all at a time when the UK's recovery has been ahead of its main trading partners and a deterioration might have been expected.

The continuation of these benign processes cannot be taken for granted and is vulnerable to the confidence wobbles and the waves of pessimism to which business is so prone. At this delicate juncture along come a handful of populist Conservative backbenchers, an opportunistic Labour opposition and some unprincipled small parties to defeat a commonsense measure to raise needed revenue, spread the indirect tax net – which has still far too many exemptions – a little more widely, and to make a modest contribution to energy saving and a cleaner environment. The top table shows that VAT on domestic fuel raises more from better-off than from poor families. It would have accounted for a higher proportion of the household spending of the poor – but this would have been more than offset by the benefits package, now also withdrawn.

The reaction of John Major, UK prime minister, to being re-elected with a small majority was precisely the wrong one. He concentrated on a small group of Tory hardliners with a mixture of threats and appeasement, as a result of which he is more in their hands than ever. The statesman-like approach would have been to recognise the new political balance and negotiate with Labour and Liberal members who were nearer to his own way of thinking on both Europe and other matters than are the Conservative diehards.

But equally, the parliamentary opposition compares badly with the US Republicans who in the end helped President Bill Clinton to get legislation on the Uruguay Round world trade agreement through Congress. The real reason why the British parliament counts for so little has nothing to do with Jacques Delors, president of the European Commission, but stems from its constituting the background noise to a non-stop general election rather than making a genuine contribution to policy.

Estimated effects of 17.5% VAT on fuel

Based on 1991 data

Groups of net equivalent household income	Additional indirect tax payments (£ per week)	Additional indirect tax payments as a % of total spending	Change in energy consumption
[illegible]	[illegible]	[illegible]	[illegible]
2	£1.83	1.3	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
4	£2.18	0.7	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
All households	£2.06	1.1	[illegible]

Source: IFS Paper [illegible], September [illegible]

Making the increased contribution to the European Union budget a matter of confidence and treating a vote on its own Budget as an ordinary parliamentary manoeuvre was precisely the wrong way round. It is desirable for the government to honour international obligations. But if parliament had prevented an increase in EU contributions it would not have been the end of the world. One does not have to be a flag-waving nationalist to query the high-spending interventionism of Brussels. A federalist of classical liberal persuasion who believed in a strong but limited European government, confined to defence, law and order, currency and international trade negotiations, could take the same line. The EU has too much to spend rather than too little; the instances of fraud are almost an inevitable consequence of the handouts, payouts and levies, mainly but not only in agriculture, by the EU.

Given everything that has happened, the package of fiscal measures to be announced today to plug the tax gap and the ½ per cent rise in base rates announced early yesterday morning are the absolute minimum required to maintain, not political stability – which is now all but hopeless – but business confidence and the momentum of non-inflationary expansion.

There was indeed a strong case for a base rate increase – made out, for instance, in my pre-and post-Budget articles well before the VAT defeat. The signs are that expansion is gathering too much momentum. The likely increase this year of nearly 4 per cent in non-oil gross domestic product is well above the economy's underlying growth rate; and the margin of unused capacity is dwindling quickly. Kenneth Clarke's chief economic adviser, Professor Alan Budd, put the remaining margin at 1-4 per cent in evidence before the Treasury Committee on Tuesday evening; and if he is anywhere near the mark the latest interest rate increase is unlikely to be the last.

The clinching evidence has come both from rising material and component prices and from growing signs that businessmen are planning to increase prices. Finally – and least emphasised in the parochial debate – are the many signs of world economic recovery advancing much more quickly than anyone had supposed earlier in the year. This shifts very starkly the balance of risks. For even if UK interest rates rise slightly too early or too far, there is plenty of world demand to maintain the momentum of recovery. On the other hand, if errors are made in the other direction, it will become difficult and costly to reverse any rebuilding of inflationary expectations.

But despite these strong arguments it is hard to believe that the chancellor would have agreed so quickly and so readily to this base rate increase without the VAT defeat. Indeed, desirable though the increase was, its manner reeked of the alarms and emergencies of the 1970s – which indeed also often followed political defeats for the Labour government, itself often in a House of Commons minority.

Cost of hypothetical tax changes in full year

(£bn)

1 percentage point change in employer NIC	[illegible]
1 percentage point in VAT	2.8
Intended VAT on domestic fuel	[illegible]
(of which out-voted rise from 8 to 17.5%)	1.5
1p change in basic rate	[illegible]
1p change in lower rate	0.7
1p change in higher rate	[illegible]
10p increase in basic rate limit	1.0

Source: Treasury

The official reason for bringing forward the meeting between the chancellor and Eddie George, the governor of the Bank of England, from 9.30am to 8.45am yesterday was to remove uncertainty before the gilts auction. Yet the auction date is normally fixed 12 days in advance. The whole concept of these pre-announced monthly meetings was to allow for a calm and unhurried discussion. The idea cannot have been a rushed breakfast meeting followed by an announcement at 9.45.

On the fiscal side, the rationalisations for not having proceeded with the increase in VAT on fuel and for not replacing it with anything else now become ever more unconvincing. For instance Andrew Dilnot, director of the Institute of Fiscal Studies, was not doing his duty when he belittled the £1bn at stake as a small fraction (0.3 per cent) of total public sector revenue. As one senator said to another: "A billion here and a billion there and soon we are talking of real money."

A large part of public sector revenues comes from individually small taxes. The full 17½ per cent VAT on domestic fuel was expected to raise £2.8bn – equivalent to the whole of the yield from spirit and wine duties. The most plausible sounding argument is: "why raise an unpopular new tax or replace it with anything else, when you know that you will be able to return it in tax cuts in a year or two?" On this basis a good part of the extra £17bn raised by the Lamont and Clarke budgets of 1993 was questionable.

The missing element, however, in all the dialectics is any recognition of uncertainty. The reason why the government was right to raise taxes as soon as the economy could stand it was that the Treasury could not be sure how much of the £50bn (subsequently trimmed to £45bn) would vanish automatically with economic recovery. Today, no one can be at all confident that there will be any taxes to remit in 1995 or 1996. The government cheerleaders (known by the peculiar name of Whips) have only themselves to blame after their heavy hints about so-called income tax cuts to come.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Opinions on EU swayed by poll questions

From Lord Plumb DL MEP.

Sir, The survey of attitudes to the EU in Britain and Germany ("Poll shows wide opposition to single EU currency", December 5) reveals that popular bewilderment, not to say sourness, takes a very similar form in both countries.

But I was also heartened to learn that 39 per cent of British respondents thought the present very close political links between EU member states should "remain unchanged"; of those 40 per cent, a majority thought they should be even closer.

German opinion is very similar.

The respondents' demand for a referendum on a single currency stands at 64 per cent in Britain, and 1 percentage point higher in Germany, which did not surprise me. On the great majority of important subjects, proposing a referendum is invariably popular.

The hard fact remains that some issues lend themselves better than others to the kind of "yes" or "no" decision-making, which is all that a referendum can offer. There is clearly no way of forcing the electorates to concentrate on the issue at hand.

The September 1992 Maastricht referendum result in France was, for instance, above all a reflection of the low standing of the government of the day.

In Ireland the treaty was widely thought to mean abortion on demand would be introduced as of right.

I hesitate to be pedantic, but note that the exact form of the question in your survey relates to a referendum on whether the EU should introduce a single currency.

The question for us is rather: should Britain remain outside a single currency were the EU to go ahead with the commitment (contained in the Maastricht treaty) to introduce the single currency by 1999 at the latest?

This is a clear pointer to the prodigious difficulty of formulating questions not only in referendums but in opinion polls. There was one thing in your report that took me aback. I had always assumed the German public to be well-informed.

You have put me right.

The 57 per cent in Brandenburg who know the Commission is based in Brussels get a pat on the head for their "above-average" performance. I will draw a veil over the 38 per cent in the East Midlands who got it right. It depressed me but I was not very surprised.

As Goethe put it, against stupidity the gods themselves strive in vain.

Henry Plumb,
leader of the Conservatives in the European Parliament

Exercised over cuts in Customs and Excise

From Mr Mike King.

Sir, Your article, "Reforms of Customs work announced" (December 1), reports Mrs Valerie Strachan, chairman of Customs and Excise, as promising that "there are not going to be any customs-free ports or airports". If she means what she says, it will be a welcome development.

Only recently (November 25), in a written answer to a parliamentary question, Mr David Heathcoat Amory, the paymaster-general, listed six airports which receive scheduled flights from abroad and currently do not have full-time customs staff. The cuts of 550 anti-smuggling staff announced this week will add to this list.

At these airports, instead of being met by customs officers, incoming passengers simply find a notice next to a telephone which they are asked to use if they have anything to declare.

I suspect that smugglers of drugs, firearms or pornography are unlikely to use this "more efficient" service.

Mike King,
assistant secretary,
NUCPS national officer for Customs and Excise,
124-130 Southwark Street,
London,
SE1 0TU

British Telecom is able to deliver cable services

From Mr Richard Woolam.

Sir, Contrary to the impression Tony Young creates (Letters: December 1), BT is not prevented from using its network to deliver the same services as cable.

When the government created the cable licensing regime in 1984, it envisaged that BT would run one-third of all cable franchises and could use its existing network to deliver broadband services in these areas. BT could have been the largest cable operator, but it spurned the opportunity.

Even now, BT could fill its ducts with fibre and deliver its current services more efficiently, offer extra services (such as those on France's Minitel system) and invest in an entirely new market – that of interactive communications. Instead BT, Britain's biggest and most profitable company, wants a new monopoly.

The cable industry is investing billions of pounds in Britain, creating new local companies and with them tens of thousands of jobs. Why does Tony Young want to destroy this? The government has created a new market and Britain is leading the world. Tony Young and BT should recognise and accept this.

Richard Woolam,
director general,
Cable Communications Association,
Fifth Floor,
Artillery House,
London SW1P 1RT

Pain or privileges control?

From Mrs Helen Taft Gardiner.

Sir, I was in New York on Sunday October 30, a warm, sunny, delightful day, and visited New York's Central Park Zoo. In due course I paid a call to the ladies' loo and I record a vignette of NY life below.

A mother, with pram and a three to four-year-old child in it, repeated and repeated "stop that, stop that" as the child in a tantrum continued to kick the wall with its feet. Finally, in desperation, the mother said: "If you don't stop that, I'll take all your privileges away."

The recent publicity about the UK's child minders brought this scene to the forefront of my mind. Will the child connect her loss of privileges with her behaviour in the ladies' loo at the Central Park Zoo?

Perhaps the mother would have taken more striking action if there had not been two witnesses.

Helen Taft Gardiner,
Les Hautes Mielles,
L'Ancresse, Vale,
Guernsey,
GY3 5BB

Markets divorced from real world

From Herbert E. Meyer.

Sir, Any doubts that the stock markets are disconnected from planet earth were laid to rest by the astonishing headline on the front page of your edition of November 30, "Big surge in US consumer confidence alarms markets".

Would someone please explain to these idiots in the City and on Wall Street that surging consumer confidence is good news for those of us scrambling to sell real products and services, and for those who invest in our enterprises.

If our success is bad news for speculators and gamblers – which is what these City and Wall Street types mostly have become – then I for one hope they all go bust and make room for professionals who understand the importance of consumer confidence to growth, and the importance of growth not merely to make the rich richer, but to create new jobs for those who need them.

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FINANCIAL TIMES

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Thursday December 8 1994

Struggling on regardless

The classic response to even the fiercest storm is to put up a "business as usual" sign. Mr John Major has little option but to follow this rule. The UK prime minister has been buffeted by events since sterling was ejected from the exchange rate mechanism. Mr Major has made a series of efforts to regain the confidence of his party, but has been tripped up after every few steps forward.

This is, perhaps, the inevitable fate of any leader of a divided party with a small and dwindling overall majority. Over the past few days the trip-ups have become serious. To discipline his backbenchers the prime minister declared last week's vote on funds for the European Union a matter of confidence. When a handful of Conservatives defied the subsequent three-line whip, they were in effect expelled from the parliamentary group. On Wednesday night all but one of the now semi-detached Tory rebels failed to support the party under whose banner they had been elected.

In consequence, the chancellor of the exchequer was obliged to rescind the proposed increase in VAT on domestic fuel. Today he will announce the measures necessary to replace it; yesterday interest rates were increased. The government's determination to hold down inflation is laudable. Yet there is no justice in politics. The economic news is excellent, but the prime minister is the most unpopular since polling began.

Nevertheless, Mr Major has to soldier on. The alternative is Tory suicide. No potential successor would be better able to unite the party. The prime minister might offer the Eurosceptics a referendum on a single currency in return for more obedient voting in future. Even that could fail. The most convinced doubters would settle for nothing less than a referendum on the outcome of the 1996 inter-governmental conference; some might demand a plebiscite in advance of negotiations.

Beneficial effect

Mr Major may reasonably hope that the beneficial effect of his economic policies will eventually be felt. There is little he can do to hasten the day. Meanwhile, it would be absurd to step down half-way through the term for which his administration was elected in April 1992. The government can only get its head down, and carry on as best as unfavourable circumstances allow.

Mr Michael Heseltine's decision to refer both the GEC and British Aerospace bids for shipbuilder VSEL to the Monopolies and Mergers Commission looks like an example of soldiering on in poor circumstances. The Office of Fair Trading had argued for the referral of the GEC bid, but there were no obvious competition policy grounds for referring BAe's, too. Not to do so would, however, have probably decided the contest. Now that decision is at least postponed. Unfortunately, there are also questions about the appropriate structure of the UK defence industry that the MMC is hardly the right body to resolve.

More satisfactory

This looks like the action of a weak government. Yesterday's interest rate rise was more satisfactory. The Bank of England's November inflation report admitted "the outlook for inflation was favourable". But it also forecast inflation two years hence "at the top of the lower half of the target range" of 1-4 per cent. While this was the most likely outcome, the risks were judged higher on the upside than the downside.

The most important information since that date has been the upward revision to GDP, which means that the economy is now estimated to have grown by 4.2 per cent in the 12 months to the third quarter of 1993. That is certainly unsustainable. More important, it is undesirable. Because the level of full capacity is unknowable, there has to be concern over how fast the economy is growing.

It is no surprise that the governor of the Bank of England pushed for an interest rate increase at yesterday morning's meeting with the chancellor. In accepting that advice, the latter may have been influenced by Tuesday's political events and, in particular, by concern over the markets' reaction. But there was a good enough argument, in any case.

The costs of action were rightly judged smaller than those of inaction. At this stage in the recovery – particularly given the poor credibility of British monetary policy – it would be far more damaging for inflation to jump above the target range than for the reverse to happen. That is the governor's judgment, the chancellor's judgment and also the right judgment.

The chancellor is also obliged to replace the £1bn or so in net fiscal revenue he lost on Tuesday night. He must do so, not because the economic arguments for doing so are overwhelming. The sum is not large enough for that. What matters is the government's ability to stick to any fiscal strategy. A government unable to tax and spend as it judges fit – at least in terms of the overall balance – can no longer govern. Its new proposals have to succeed. Should it be rebuffed another time, it will probably be swept away by the storm.

Competing telephones

It is fitting that the tribulations of Mercury, main competitor for British Telecommunications, should have surfaced in the week that Oftel, the telecoms watchdog, set out its views on the future regulation of the UK's telecoms industry. It would be wrong, however, to attribute Mercury's plight to regulatory failings, and still more mistaken for overseas observers to believe it reveals the limits to effective telecoms competition.

On the contrary, Mercury's difficulties reflect the flourishing state of competition in UK telecoms. Mercury's success in the late 1980s spurred BT into making the impressive efficiency gains which are haunting its rival in the mid-1990s. Since the abolition of the BT/Mercury duopoly in 1991, 57 new licences have been granted; many of them to operators targeting the corporate market with lower prices than Mercury's.

The government's policy of opening the market to all qualified comers has yielded benefits to companies and consumers. And Oftel's tough price cap on BT has produced large tariff cuts, even for those who have not benefited directly from new competition.

Over-detailed

However, three issues require attention if the second decade of competition in UK telecoms is to be as successful as the first. First, the over-detailed regulation of retail prices and of inter-connection terms for operators needing to use BT's national network. Second, the role of Oftel in policing a tough pro-competition regime. Third, the shape of pan-EU regulation as telecoms liberalisation advances on the mainland.

To reduce the need for intrusive regulation, BT's prices need to be brought more closely into line with its costs, and its accounts ought to be fully transparent to prevent undue cross-subsidy. Oftel has made strides on both fronts, but more needs to be done. It is essential that Oftel withdraws from the dubious process of charging BT's competitors "access deficit contributions" to cover the supposed loss BT incurs in maintaining line connections. With competition in local telephony well established, Oftel should give BT freedom to set line rentals, provided BT was required to maintain a uniform national charge and to protect low users. ADCs could then be abolished.

Effective sanctions

Oftel is careful in its paper to talk in terms of options, but its thrust is away from prescriptive rules and towards effective sanctions to deal with abuse of dominant position. This is to be welcomed, although fairly exacting price controls on BT must continue for as long as it remains dominant. However, if this approach is to bear fruit, competitors must have confidence in the ability of the regulator to police abuse. They have little reason for such confidence at present. Regulatory authorities in the UK have no power to offer relief through injunction; nor are the UK's courts and competition agencies well equipped to offer swift and effective remedies. Changes in the law may be necessary to strengthen the regulators.

Without such changes, aggrieved competitors may look to Brussels for redress. There are those who would in any case welcome a single EU telecoms regulator as liberalisation advances across the EU. Yet it is hard to square the idea of a single EU regulator with the principle of subsidiarity, given Oftel's proven capacity to police the emerging UK market over the last decade. Far better to agree principles for application in each country – one of which must be the conferring on regulators of sufficient powers to enforce fair competition swiftly.

Latin America and the US are agreed on the importance of regional trade, write **Stephen Fidler** and **George Graham**

Bonds that bind a hemisphere

Former US President Jimmy Carter once said he understood why Latin Americans mistrusted the United States. "The Mexican people know what Yankee imperialism means, and being from Georgia, I have also heard the same phrase used."

For nearly 50 years, Latin America was the backyard where Washington fought an often dirty war against the perceived Soviet threat. But tomorrow night, when President Bill Clinton, another southern Democrat, greets 33 heads of state and government gathering for the Summit of the Americas in Miami, he will deliver a message that US policy towards its neighbours in the hemisphere has changed.

Things have certainly changed in Latin America itself. Over the past decade, a quiet revolution has sent military rulers back to the barracks and jettisoned an exhausted protectionist economic model. Latin economies are now more open to foreign trade and market forces than they have been since the Great Depression of the 1930s.

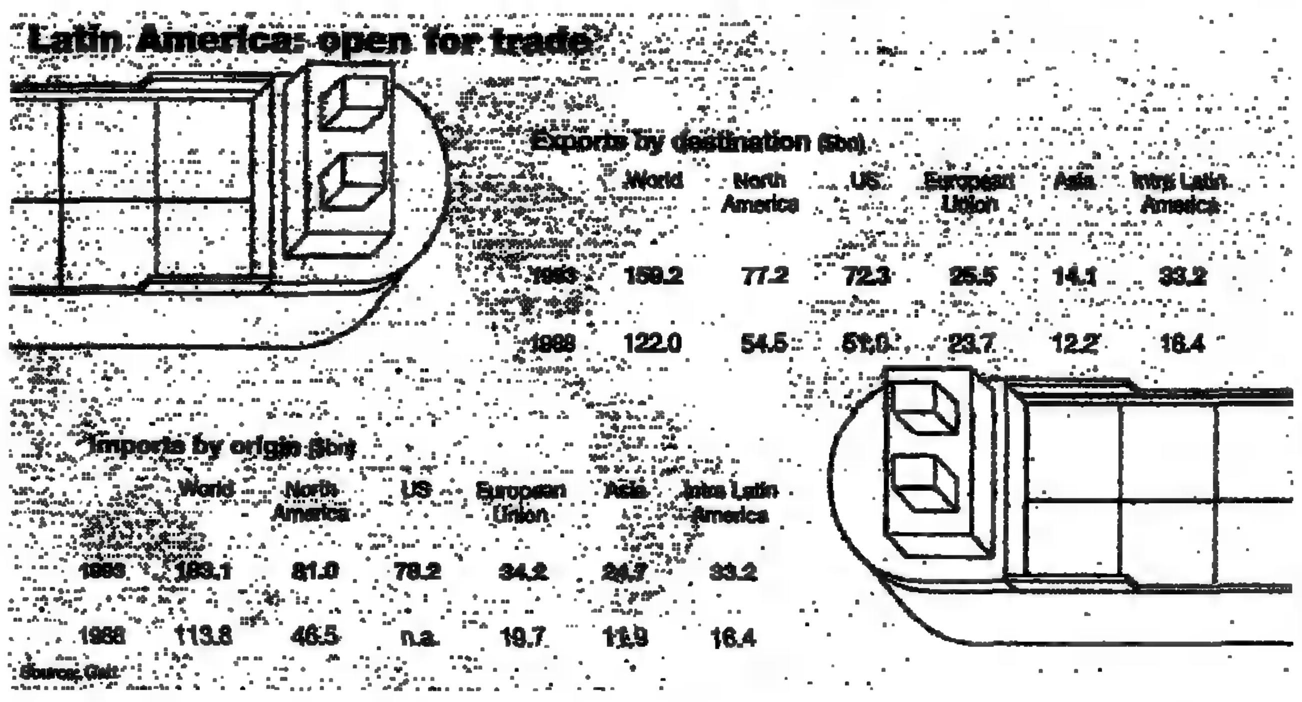
The difficulty Mr Clinton faces is that, since he secured passage of the North American Free Trade Agreement between the US, Canada and Mexico through the US Congress late last year, the western hemisphere has appeared on his policy screen only twice. Both episodes – the US military intervention in Haiti and the Cuban refugee crisis – suggest that US attitudes to Latin America have not changed much. Unless Latin America manifests itself as a domestic US policy problem – related, for example, to immigration or drug trafficking – it seems Washington will not pay much attention.

This impression has been reinforced by US officials' vigorous downplaying of what it might be possible to achieve at this week's summit, called by the US following Nafta's ratification.

So successful have these efforts been that some Latin American leaders have wondered whether it will be worth the trip. All the more so after Mr Clinton was forced to put off until next year "fast track" negotiating authority for talks on the expansion of Nafta from the US Congress.

But the prospects for the Miami summit have been looking up lately – despite the blow dealt to the host by the Democrats' defeat in last month's mid-term Congressional elections. Latin American governments want to talk trade and, since he secured passage for the Uruguay Round world trade agreement last week in Congress, Mr Clinton has indicated he wants to talk trade too.

"There will be hemispheric concurrence that economic integration is a vital goal for this hemisphere, that there will be a call for the construction of the Americas Free Trade Area, or Afta, and that the process of integration should begin immediately," said Ms Charlene Barshefsky, the deputy US trade representative.



Exports by destination ($bn)

	World	North America	US	European Union	Asia	Intra Latin America
1993	159.2	77.2	72.3	25.5	14.1	33.2
1988	122.0	54.5	51.0	23.7	12.2	16.4

Imports by origin ($bn)

	World	North America	US	European Union	Asia	Intra Latin America
1993	183.1	81.0	78.2	34.2	24.7	33.2
1988	113.8	46.5	n.a.	19.7	11.9	16.4

Source: Gatt

Mr Clinton and the leaders of Canada and Mexico are also expected to announce their intention to start negotiations soon on Chile's accession to Nafta.

The opportunity for winning US congressional approval for bringing Chile into Nafta is narrow, ahead of the 1996 US presidential election campaign. "To try to strike a deal in the middle of an election is impossible. We have a year and a half now," said Mr John Biehl del Rio, Chile's ambassador to Washington.

Nafta's extension to Chile is of little economic consequence to the US – Chile's economy is less than 1 per cent of the size of that of the US, and most of its exports to North America are already subject to low tariffs. It is, however, of symbolic importance.

It would give impetus to the idea that Nafta could be the basis of hemispheric economic integration. "It's like a bicycle; if we stop pedalling, everyone will fall off," said one official involved in the participants' pre-summit deliberations.

Brazil is one reason why the US cannot take it for granted that the whole region will queue up to sign up to Nafta. Now emerging from years in the economic doldrums, the largest economy in Latin America sees itself as the centre of a South American Free Trade Area – Safta. The core of this will be Mercosur, which from the start of 1995 will become a customs union tying Brazil with Argentina, Paraguay and Uruguay.

Many trade experts fear that a patchwork of accords could hinder free trade rather than help it

Brazil's official attitude is that there is no antagonism between Safta and Nafta. But underlying this is a barely hidden suspicion of US motives in the region. Mr Rubens Barbosa, the Brazilian ambassador to London, argued that joining Nafta would mean South American countries "would lose their capacity for adopting autonomous policies in sensitive areas such as investment, services and intellectual property".

Complicating matters, the European Union last month tossed a joker into the Miami deliberations, saying it would negotiate a free trade zone with the Mercosur countries, and indicating it would not stand by and watch its trading relationship with the southern cone countries eroded by the US. One official at the pre-summit talks said this announcement galvanised proceedings, making the North Americans more determined to push Nafta forward.

If this were not complicated enough, Nafta and Mercosur are not the only trade agreements being forged in the region. The Andean Pact of Colombia, Venezuela, Peru, Ecuador and Bolivia enter into a customs union of their own on January 1. The Central American Common Market, the Caribbean Economic Community and a plethora of other bilateral agreements and sub-regional free trade accords have also been put in place.

For the first time Latin companies are seeking new markets regionally, boosting intra-regional trade to 21 per cent of regional exports in 1993, from 13 per cent in 1988. Mr Pedro Vallenilla, president of Venepal, Venezuela's largest pulp and paper company, said: "We don't consider Colombia, where we have 10 per cent of our sales, as an export market."

While this represents a profound change, many trade experts are worried that a patchwork of accords could hinder free trade rather than help it. Mr Sidney Weintraub of the Centre for Strategic and International Studies decribes further proliferation of bilateral and sub-regional agreements in the western hemisphere as "a hypothetical horror scenario".

With this in mind, the Miami summit will aim to freeze protectionism in the hemisphere, ensuring no increase in tariff or non-tariff barriers. Ms Barshefsky said the Organisation of American States would begin an immediate analysis of the compatibility of existing trade pacts in the region. A target date, perhaps 2015, is also being discussed for hemispheric free trade.

The hope in Washington is that this would fix Latin America's political and economic revolution, the durability of which cannot be taken for granted.

Political reforms remain vulnerable, because the military still plays an important role in many states, particularly in central America. And drug traffickers are still undermining and corrupting many governments.

Doubt also still hangs over economic development, as growth has so far delivered little to the poor, whose lot worsened in the 1980s, with wealth in Latin America still more concentrated than in any other region.

Also of concern are Mexico's and Argentina's large current account deficits, which underline their dependence on fickle foreign capital markets. Fears of another financial crisis in the region have not vanished.

Another area of uncertainty is the ability of regional governments to oversee market economies. A recent paper by Mr Moisés Naím, the former Venezuelan industry minister now at the Carnegie Endowment, the Washington think-tank, argues: "Governments in Latin America are not up to the tasks of sustaining and deepening economic reforms, overseeing newly liberalised private sectors, dealing with the problems of poverty and inequality, or consolidating democratic politics."

Trade, however, remains the top priority for the Latin American participants in the Miami meeting. As Mr Kim Holmes, head of the foreign policy studies at the Heritage Foundation, a conservative Washington think-tank, said: "President Clinton needs to tell his Latin American colleagues that he will go to the mat for 'fast track'. Trade is the only issue in this hemisphere that the Latin Americans and the US can come together on across the board."

Bridge between classroom and workplace

PERSONAL VIEW

Training currently enjoys an almost undisputed reputation as the engine of economic success and the panacea for the long-term unemployed. Industrialists can be relied upon to endorse the value of any new training initiative. Politicians reaffirm their commitment to parity of esteem for vocational and academic education as a symbol of their economic vision.

The UK's latest initiative in vocational training and education is the introduction of new qualifications: General National Vocational Qualifications. GNVQs (and their Scottish equivalents) are supposed to herald enhanced status for vocational education to the benefit of industry and the enterprise culture. They are intended, says the government, to provide a bridge between the academic and vocational, leading into the workplace, giving credit towards more specific vocational qualifications, but also allowing progress into higher education.

GNVQs have certainly recruited successfully among 16-18-year-olds. But this has little to do with their novel or vocational character. Research* just completed shows that GNVQs are taught, in classrooms, to teenagers whose main aspiration is higher education and who have no intention either of combining their GNVQs with the narrowly occupational NVQs (National Vocational Qualifications), or of moving on to NVQs in the future. Why are young people so apparently blind to what industrialists and politicians see as the needs of the labour market?

In fact, the same patterns are to be found in other industrialised countries. In the Netherlands, the old-established junior vocational programmes are in near-terminal decline. In France, the government expanded the traditional *baccalauréat* programme with first technical and then vocational *baccalauréats*. Both were conceived as entry routes to employment, but have instead fuelled huge increases in university entrants and in numbers attempting higher technical awards. In Germany, famous for the dual system of apprenticeship, there are now more young people in higher education than there are in apprenticeships. Qualification panic has come late to England – but there too the demand is for more education. NVQs have failed as an attractive qualification for young people.

People are generally more rational in serving their own interests than in their advice to others. Nothing suggests that teenagers are any different. On the contrary, their educational choices are a clear response to what employers look for when hiring.

Companies actually want candidates who can be trained quickly for jobs that change constantly

A central function of any education system is to sort people. Employers want the best employees they can find; young people want to differentiate themselves from their competitors. When few people possessed advanced educational qualifications, employers knew that the less qualified would include many able people. However, the more numerous the highly qualified, the less attractive those with few or no qualifications become.

Moreover, the rhetoric about parity of esteem obscures the fact that, for most jobs, the relevant vocational skills are academic. An economy with a growing proportion of office-based jobs is one in which grammatical writing (not touch-typing) is the crucial requirement. A world of data-processing requires new and greater levels of numeracy, not a reduction in mathematics teaching. Japan's general education produces workers with many vocational skills and the capacity to learn fast on the job.

The rationality of teenagers puts that of many policymakers to shame. In the UK, the Confederation of British Industry and the Trades Union Congress apparently believe that what the unemployed require is government training programmes that equip them with skills. But what most companies actually look for are candidates who can be trained quickly for jobs that change constantly. That means people with high levels of general (notably academic) skills, and evidence of application, for example in pursuit of education. Little wonder that short-term government training schemes have such a dismal record, worldwide, in raising participants' chances of finding a job.

Throughout the west, vocational education is converging with academic in the emphasis it gives to language skills, mathematics and science. It is doing so because of pressure from young people and parents: those affected most directly by what educational programmes offer. It is a pity that the suppliers of GNVQs have not yet learnt that the customers really do know best.

Alison Wolf

The author is reader, Institute of Education, University of London.
** GNVQs 1993-94: A National Survey may be ordered from the Further Education Unit, Tinworth Street, London SE11 5EH*

OBSERVER

Not shopped quite rite

■ A strange tale emerges of a Dutch fund manager from a tiny village outside Gouda besting the London investment bank BZW during the rescue of discount grocer Shoprite last month.

Henk van Heyst, via his 5-year-old fund, Van Heyst Investments, is clearly something of a dab hand in that under-researched corner of the market, the UK preference share.

Quick to spot trouble developing in Shoprite preference shares, 15m of which had been issued at 100p in February, and which bottomed at 24p in October after the second profit warning from the company in four months, he stepped in smartly and bought a fat chunk – at what price he will not say, but within a penny or three of the low.

Days later, Shoprite announced the sale of most of its stores to Kwik Save, and offered to repay the preference shares at 85p in the pound (reflecting the move in gilts since February). Van Heyst was not pleased and, at a meeting just over a week ago at the offices of BZW, the company's broker, he rallied other preference shareholders around him to try and block the rescue package. Speedy climbdown of Shoprite, advised by BZW, which agreed to redeem the prefs at 100p in the pound.

BZW, meanwhile, as sponsor to the pref issue and its lead agent, had been criticised in June for keeping on its books some £3m of the shares without making this clear to subscribing institutions.

In October, though, the market-making arm, it would seem, had a bit of a panic and off-loaded most or all of the shares near the 24p floor – days before the sale of Shoprite on which its corporate financiers were beavering away.

Van Heyst discreetly declines to confirm he bought BZW's holding. One source close to Shoprite merely says: "Let's say that BZW's Chinese Walls are in good order."

Cheeky one

■ Has prominent Budapest stockbroker Csaba von Csiky lost his shirt in the market? Sharp-eyed delegates to the Budapest gathering of the CSCE this week would have noticed von Csiky flashing an identity pass describing himself as a "janitor" at the Hotel Kempinski.

As far as Observer is aware his finances are in perfect order, but he has had a spot of bother of a different kind. For the duration of the conference, Hungarian police had ordered that no one could stay or enter the Kempinski – normally a salubrious enough pad – or any of the city's top hotels, for that matter, unless part of an official delegation, or a member of staff.

It didn't matter one jot to the police that von Csiky is actually a resident at the Kempinski. He was told he had to move elsewhere.

'Yippee – we'll only be half-frozen'

Consequently, the embarrassed hotel management found the only way it could outwit Hungary's notorious ex-communist bureaucracy was by putting von Csiky on its staff.

Booby prize

■ Nicholas Winterton's path into the Aye lobby on Tuesday night is not likely to lead him to a place of honour on the Olympic podium.

The VAT-on-fuel rebel has agreed on behalf of the British Olympic Association to launch a private member's bill giving the BOA exclusive rights in Britain over the five-ringed Olympic symbol of the games. Increasingly, the association raises its multi-million pound funds through sponsorship and, not surprisingly, those companies which cough up want guarantees that they have exclusive rights to the logo in the UK.

"Until now we haven't been able to give that assurance because the rings have been in the public domain for a long time," a BOA spokesman explains. Indeed, he admits, the organisation has quietly had to spend money on buying off companies intent on encroaching on the territory of the official sponsors.

However, Winterton drew an unlucky 13 in the ballot for private member's bills; success also depends to a great extent on the popularity of the sponsoring MP.

This has already been found wanting. Cancelling plans to address the Manufacturing and Construction Industries Alliance at Westminster yesterday afternoon was one Kenneth Clarke. And guess who's the chairman of this increasingly prominent industry lobby? Right. Nicholas Winterton.

Commandeered

■ How exciting – an invitation for Observer to toast the festive season in the company of The International Security Command of the Foreign and Commonwealth Office. Some very hush-hush gathering of top military bods, no doubt.

Sadly no. The ISCFCO, it transpires, is nothing more than a fusion of three FCO departments dealing with non-proliferation, security policy and the CSCE, the Conference on Security and Co-operation in Europe. Commanding the command is the resolutely civilian assistant undersecretary David Logan.

Well, if you can't stop Balkan conflagrations, you might as well have a party, eh chaps?

Empowered?

■ Fed up with journalists, market researchers, publishers and other undesirables badgering you? Why not take a leaf out of the book of octogenarian management guru Peter Drucker, who replies to correspondents (including the FT) with a pre-printed message that caters for most eventualities. Drucker "greatly appreciates your kind interest, but is unable to: contribute articles or forewords; comment on manuscripts or books; take part in panels and symposia; join committees or boards of any kind; answer questionnaires; give interviews; and appear on radio or television".

Beastly

■ So why does that rhinoceros in the game park remind you worryingly of your lawyer?

Possibly because it is thick-skinned, short-sighted and prone to charge unexpectedly.

FINANCIAL TIMES
Thursday December 8 1994

UK drops objections to Eko Stahl support

EU ministers poised to clear German steel aid

By Emma Tucker in Brussels

European Union ministers are expected today to approve DM910m ($610m) in state aid for Eko Stahl, eastern Germany's biggest steelmaker, after the UK dropped its objections.

Under pressure from the British steel industry, the UK had argued that the subsidies were not accompanied by adequate reductions in capacity and delayed a deal on the lossmaking plant.

However, extensive bilateral talks between the UK and Germany appear to have yielded a solution, with the Germans offering to reduce the extent of commercial loan guarantees given.

But while officials in Brussels were last night optimistic that the Eko Stahl deal would be finalised today, there is a chance that Greece will produce a new stumbling block. At a meeting between representatives from the member states in Brussels last night, the Greeks attempted to hold an Eko Stahl deal hostage to subsidy concessions on a Greek shipyard being prepared for privatisation.

The Greek move follows action by France to link its approval of the steel aid to a separate dispute over an international pact to cut shipbuilding subsidies.

Such behaviour – not confined to Greece and France – was fiercely criticised by Mr Jacques Delors, the Commission president, who said he had never seen so many hostages being taken by individual member states.

"It is an indication of the deterioration of the climate in the European Union," he said.

Approval of the Eko Stahl aid will open the way for the takeover and modernisation of the plant by the Belgian steelmaker Cockerill Sambre. It has agreed to pay DM30m ($20.1m) for a 60 per cent stake in the enterprise and intends to invest a further DM440m in modernising the mill's blast furnace and building a hot-rolling mill.

Apart from the German state aid, the deal involves privatisation of Eko Stahl. Capacity cuts will take place at other steel plants in east Germany.

The UK's objections stemmed from a fear that the aid agreed for the Cockerill Sambre takeover was worth more than that agreed last year with Riva of Italy, which eventually withdrew from the deal.

It appears that the Germans have agreed to lower the level of guarantees for commercial loans from the original DM200m. Yesterday a UK official said it had sought a reduction to under DM100m. The concession is unlikely to appease UK steelmakers, who wanted the deal blocked altogether, arguing that the plan would add capacity in an oversupplied sector.

Union protests as German court rules coal levy illegal

By Judy Dempsey in Bonn

Germany's heavily subsidised coal industry was thrown into turmoil yesterday after a ruling that a controversial levy paid by electricity consumers to support domestic coal production was unconstitutional.

The decision by the country's constitutional court was immediately welcomed by Mr Erwin Teufel, prime minister of Baden-Württemberg. He said the Kohlepfennig, the levy on industry and private consumers to protect domestic coal production against imports, was "unjust and against the principles of the free market economy".

But Germany's powerful miners' trade union, IG Bergbau, called the findings "hugely disappointing". "It is now up to the government to act as quickly as possible to find a way to subsidise our coal after 1995," said Mr Christoph Meer, a union spokesman.

The court's decision comes eight years after the case was first sent to it by the district court in Moers, near Düsseldorf, acting on behalf on an individual who refused to pay the Kohlepfennig.

The court said the Government would have to phase out the levy by the end of next year. That would coincide with the termination of another coal subsidy, the Jahrhundertvertrag, which obliges German electricity utilities to buy domestic coal.

"We respect the decision of the court," said Mr Friedrich Bohl, chancellery minister, adding that the government "would scrutinise the ruling carefully".

The Kohlepfennig, which amounts to a 7.5 per cent levy on prices, was introduced in 1976 as a means of protecting domestic coal production against cheap coal imports. A tonne of west German coal costs DM280-DM290 ($188-$195) against imports costing an average DM83-DM90.

At the same time, under the terms of the Jahrhundertvertrag, Germany's electricity companies are committed to buying about 40m tonnes of domestic coal a year to protect the industry. In all, through the Kohlepfennig, the government has been subsidising the coal sector by about DM8bn a year.

But German industry, which is saddled with some of the highest electricity prices in the European Union has repeatedly demanded a reform of the subsidies, claiming that they have hindered competitiveness – as well as competition.

No decision had yet made about how to finance the subsidies after 1996. Yesterday's court ruling means the matter can no longer be postponed.

Former PMs fight to lead Japanese opposition

By William Dawkins in Tokyo

Two former Japanese prime ministers, Mr Toshiki Kaifu and Mr Tsutomu Hata, will today compete to be the first leader of Japan's new opposition alliance.

The struggle for the top job at the New Frontier party, the result of a merger of nine small opposition groups and the only serious challenge to the ruling Liberal Democratic party, will be decided by a poll of party members tonight.

The vote paves the way for the NFP's inauguration on Saturday. This will bring a resolution, even if temporary, to the political fragmentation caused by the wave of defections from the LDP, which recently returned to power in coalition after spending a year in opposition for the first time in nearly four decades.

The realignment restores some clarity to Japan's confusing political structure, to the relief of bemused foreign investors.

The NFP's policies are almost the same as those of the conservative LDP, though it wants less government intervention in the economy.

The open method of choosing a leader, advocated by Mr Hata, marks a break with secretive traditions such as the LDP's habit of sharing jobs among top factions.

The most powerful members of the NFP, including the two leadership candidates, are former members of the LDP who have left their old party over the past 18 months in protest at its reluctance to accept political reforms.

Mr Kaifu is widely tipped to win the vote by a small margin because he has broader support than Mr Hata, whose followers are mostly concentrated in his own group, the Japan Renewal party, the core of the two previous coalition governments. A third candidate, Mr Takashi Yonezawa, head of a trade union-backed group, is an outsider.

The job of NFP secretary-general, second in command, is likely to go to Mr Ichiro Ozawa, a powerful backroom strategist from the same group as Mr Hata. Mr Ozawa left the LDP last year and has since been instrumental in bringing together two coalition governments and this new party. He is the only candidate.

Mr Kaifu launched plans for reforming the electoral and political system, in an attempt to regain the public's waning trust of politicians, while he was LDP prime minister from 1989 to 1991.

Party elders withdrew support for him when he started pushing reform too hard. He finally left the LDP in June, in what turned out to be an abortive bid to become opposition prime minister. New political and electoral rules, to take effect on December 25, echo Mr Kaifu's 1991 proposals. Mr Hata was the shortest-serving Japanese prime minister since the second world war.

THE LEX COLUMN

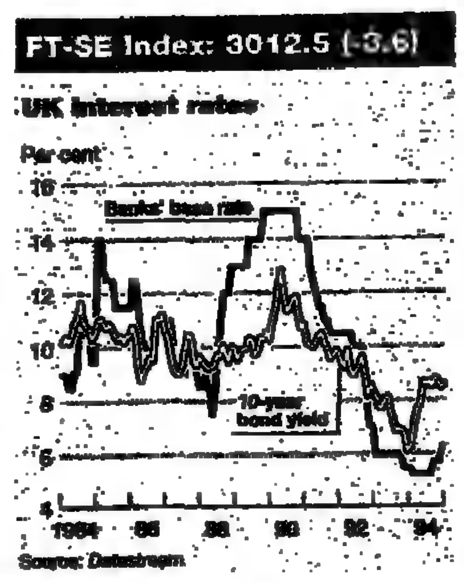
Base rate basics

The midwife of yesterday's rise in UK interest rates was a political crisis. But the increase was due anyway. The economy is growing at an unsustainable rate of over 4 per cent a year. Even if inflation is at a 27-year low, fears about inflationary pressures remain justified because the gap between output and capacity is narrowing so fast. A rate rise was needed. By unexpectedly announcing it yesterday, the government could shift the political blame to its rebellious backbenchers.

For all the drama caused by a humiliating parliamentary defeat and the surprise rate rise, the markets ended the day surprisingly undamaged. Given the sudden increase in political risk, it remains unclear whether corporate earnings growth can underpin the equity market. Certainly, most of the improvements will have to come from corporate rationalisation and exports rather than consumer demand. The rate increase will eventually feed through to mortgages, undermining the housing market still further. That will affect already weak high street spending: Christmas and New Year are likely to be unseasonably bleak for retailers.

Moreover, the UK markets' main focus in the coming weeks will be the US not Westminster. US equity markets are doubly troubled. Yesterday's hints by Mr Alan Greenspan, the US Federal Reserve chairman, that rates may have to rise again do little for sentiment. Meanwhile, the difficulties in Orange County and at Fidelity Investments' Magellan Fund are raising fears that other big investors may be having troubles. Hopes of a year-end rally could be dashed.

FT-SE Index: 3012.5 (-3.6)



Source: Datastream

VSEL

The government's decision to refer both the British Aerospace and GEC bids for VSEL to the Monopolies and Mergers Commission is bizarre. The competition argument is thin. True, a GEC takeover would reduce the number of UK warship manufacturers from three to two. But the Ministry of Defence, as a monopsonist, is quite capable of looking after itself in negotiations. The public interest argument for referral is even stranger. The government cannot seriously be suggesting that either BAe or GEC is a threat to national security.

The referrals are an irritation for all three companies. VSEL shareholders obviously lose out, since there is some doubt whether a lucrative bidding war will resume in March. BAe can at least comfort itself with the knowledge that the first part of its "trombone" rights issue, worth £178m, is still intact. That can be used to restructure its lossmaking turbo-prop business. Its shareholders, though, can hardly be pleased that more money will presumably have to be spent on underwriting fees post-March on top of the vast sums that have already been spent on the trombone. Meanwhile, GEC can draw grim satisfaction from the fact that it has managed to drag BAe into the Monopolies Commission with it.

Ministers are embracing the idea of greater cross-border collaboration between Europe's defence groups. That may count against an eventual merger of GEC's and BAe's defence businesses. But ministers should note that, while European link-ups are fine in theory, other governments are wary of moves that would undermine national sovereignty.

UK telecoms

Oftel's consultative document may contain few hard conclusions, but it does have a clear philosophy: that the UK telecoms market should eventually be less intensively regulated. Such a philosophy should be good for the market's growth. BT, in particular, has finally woken up to the fact that marketing can expand the use of telecoms services. Deregulation will give BT and its competitors greater freedom to set prices. Further stimulation of the market should follow.

That said, the details of what is finally decided will have a big impact on the relative positions of the main operators. At present, it looks as if Mercury Communications will gain in the short term but BT will benefit in the longer run. Oftel seems intent on reforming and then abolishing the ungainly system of "access deficit contributions". This should mean Mercury will pay BT lower fees for shunting calls over its network.

But the likely *quid pro quo* is that BT will receive freedom to rebalance its tariffs, by raising standing charges but cutting call prices. Such rebalancing will not occur overnight, if only because BT will want to avoid the resultant flak. But, over time, falling *call charges will keep a squeeze on* Mercury, making this week's cost-cutting doubly important. The winners will be the cable television industry. As BT puts up standing charges, the cable companies will raise theirs too.

Deutsche Bank

Deutsche Bank has had a dreadful year. The collapse of Metallgesellschaft and the Schneider scandal have dented the bank's reputation and profits. The recent rebound in the bank's share price suggests investors are beginning to look on the catalogue of mishaps as a thing of the past. But yesterday's 10-month results are unlikely to encourage any further re-rating.

The figures are discouraging on a number of points. The 2.7 per cent drop in interest income on the comparable period of 1993 contrasts starkly with gains of more than 10 per cent at Dresdner Bank and Commerzbank in the same period. Clearly Deutsche's mainstream lending business is performing more sluggishly than those of its smaller rivals. This is in part due to Deutsche's prudent policy of scaling back loans during the German recession, but there has been no corresponding decline in risk provisioning. New provisions remain high and it is little consolation that the extraordinary gains on the sale of stakes in Daimler-Benz and Karstadt have been swallowed up by big write-offs against Metallgesellschaft and Schneider.

Deutsche has avoided the loss on own-account trading experienced by Dresdner, but analysts are still downgrading forecasts. As a result Deutsche's shares now look fairly valued versus other German banks. Another drag on the share price is the possibility that Deutsche will back up its ambitions in the investment banking field with a big acquisition. This would entail a large goodwill write-off and the bank might have to turn to shareholders to rebuild core capital.

UK rate rise

Continued from Page 1

the chancellor to drop the proposed VAT increase.

Mr Major's long-standing enemies on the right were joined by less controversial senior MPs in suggesting that his leadership now depends on restoring unity.

The rate increase underpinned sterling, lifting the pound by ¾ pfennig to DM2.4576. It also boosted bonds, with 10-year gilts adding ¼ point. However, equities reversed early gains in line with Wall Street, with the FTSE-100 index closing at 3,012.5, down 3.6.

Call to change role of Fed

Continued from Page 1

Such a change would bring US policy into line with that of many other industrial countries which have set inflation targets for their central banks.

He welcomed Mr Mack's proposal yesterday, but cautioned that setting a specific inflation target such as 2 per cent might "create an unnecessary degree of rigidity". He favoured a general requirement to achieve price stability, similar to that imposed on the German Bundesbank.

Mr Greenspan said the general economic outlook remained the best in 20 years. There was little evidence that the pace of economic growth had yet been retarded, despite six increases in short-term rates this year, taking the federal funds rate to 5.5 per cent against 3 per cent in early February.

Moreover, because of the sharp increase in long-term rates, much of the impact of rate increases earlier this year was already being felt. This suggests the Fed believes further monetary tightening is needed.

He said growth had been faster than expected – more than 4 per cent at an annual rate this year.

FT WEATHER GUIDE

Europe today

Deep low pressure between the UK and south-west Norway will bring rain to the eastern UK, south-west Norway, the Benelux and north-west France. Strong gale to storm force winds will occur over the North Sea. Winds will also be strong on the north-west of the continent. South-west France will have sunny spells. Southern Spain will be sunny but north-west Spain will be cloudy. Northern Italy will have rain with showers lingering in southern regions. The central Mediterranean will also have showers. The Balkans and most of central and eastern Europe will have a mixture of sun and cloud.

Five-day forecast

Depressions will continue to arrive from the Atlantic bringing rain interspersed with showers and sunny spells. Gusty winds will develop and temperatures will be way above normal. The western Mediterranean will be settled but central and eastern areas will have a mixture of sunny spells and showers.

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	21
Accra	fair	31
Algiers	sun	19
Amsterdam	rain	11
Athens	fair	16
Atlanta	fair	16
B. Aires	shower	27
B.ham	rain	12
Bangkok	cloudy	33
Barcelona	fair	15
Beijing	sun	10
Belfast	shower	6
Belgrade	fair	9
Berlin	shower	8
Bermuda	fair	25
Bogota	cloudy	21
Bombay	sun	32
Brussels	rain	11
Budapest	fair	3
C.hagen	shower	6
Cairo	sun	19
Cape Town	sun	25
Caracas	cloudy	29
Cardiff	rain	11
Casablanca	sun	18
Chicago	shower	2
Cologne	rain	10
Dakar	fair	27
Dallas	fair	24
Delhi	sun	24
Dubai	fair	24
Dublin	shower	8
Dubrovnik	fair	16
Edinburgh	rain	6
Faro	sun	18
Frankfurt	shower	10
Geneva	fair	8
Gibraltar	sun	18
Glasgow	rain	6
Hamburg	shower	8
Helsinki	fair	0
Hong Kong	cloudy	24
Honolulu	cloudy	28
Istanbul	fair	13
Jakarta	shower	31
Jersey	rain	13
Karachi	sun	31
Kuwait	fair	18
L. Angeles	fair	17
Las Palmas	sun	23
Lima	cloudy	24
Lisbon	fair	15
London	rain	14
Lux.bourg	rain	7
Lyon	fair	10
Madeira	cloudy	21
Madrid	fair	10
Majorca	fair	18
Malta	fair	19
Manchester	rain	10
Manila	cloudy	30
Melbourne	shower	22
Mexico City	fair	22
Miami	fair	29
Milan	hazy	9
Montreal	snow	-2
Moscow	fair	-5
Munich	fair	9
Nairobi	fair	25
Naples	rain	16
Nassau	fair	29
New York	rain	9
Nice	sun	16
Nicosia	fair	15
Oslo	rain	4
Paris	rain	12
Perth	fair	27
Prague	sun	7
Rangoon	fair	30
Reykjavik	rain	3
Rio	fair	29
Rome	drzzl	16
S. Frsco	fair	12
Seoul	fair	13
Singapore	shower	31
Stockholm	rain	4
Strasbourg	fair	11
Sydney	fair	27
Tangier	shower	18
Tel Aviv	sun	18
Tokyo	fair	14
Toronto	fair	2
Vancouver	rain	5
Venice	cloudy	11
Vienna	fair	6
Warsaw	fair	0
Washington	cloudy	12
Wellington	shower	21
Winnipeg	fair	-12
Zurich	fair	8

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday December 8 1994

IN BRIEF

Alcatel buys into mobile phones

Alcatel Alsthom, the French engineering and communications group, yesterday announced it is to buy a 20 per cent stake in the mobile telephone operations of Générale des Eaux, the utilities and construction company. Page 18

SIA and Tata software venture
Singapore Airlines (SIA) has linked up with India's Tata industrial grouping to form a joint venture company to develop computer software. The new company, to be based in India, will concentrate initially on developing SIA's computer system. Page 19

France tests media superhighway
Mr Nicolas Sarkozy, the French budget and communications minister, called on private-sector companies to take part in trial services to prepare the way for a planned information superhighway. Page 18.

Whirlpool makes Chinese purchase
Whirlpool, the world's largest producer of white goods, is expanding its presence in the fast-growing Chinese home appliance market by acquiring a majority stake in SMC Microwave Products, China's largest microwave producer. Page 20

Swalec lifts its dividend by 47%
South Wales Electricity saw its shares rise 9p to 780p as it announced a 47 per cent rise in its interim dividend. The increase, on the back of a 21 per cent rise in pre-tax profits from £44.4m to £53.6m ($87m) was partly the result of a rebalancing of dividends between the two halves of the year. Page 23

Carlton sets sights on the continent
Carlton Communications, the television and television services company which yesterday announced full-year pre-tax profits of £190m, is planning to increase its presence in continental Europe. Page 22

Ferranti Technologies rescue bid
Ferranti Technologies, which makes fuses, gyroscopes and artificial horizons for the UK and US defence industries, is expected to be rescued from receivership this week by a management buyout. Page 25

Prudential plans policy sales changes
Prudential Corporation yesterday became the latest life insurer to respond to rules on giving more information to customers buying policies, by promising to introduce changes next year. Page 24

Mansfield Brewery increases 17%
Increased beer exports to the former Soviet Union helped Mansfield Brewery to raise its lower margin take-home volumes by 39 per cent in the first half. The group reported pre-tax profits 17 per cent ahead for the six months to October. Page 25

Bowater scents profit
Bowater, the printing, packaging and coatings company, announced the £66m ($108m) cash acquisition of a French pumps manufacturer. The company is buying SOFAB – the world's leading manufacturer of the miniature pumps and valves used in luxury perfumes – from Bic, the manufacturer of ballpoint pens. Page 23

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				Rises			
Goldschmidt	840	+	15	BIC	863	+	19
Holzmann	859	+	14	CCF	224	+	5.5
PWA	231	+	3.2	Unibail	476	+	10.7
VEW	394	+	7.5	Falls			
Falls				Air Liquide	725	-	13
AG Ind Verk	467	-	11	Esso	661	-	13
Asko	672	-	18	[illegible]	255.3	-	10.7
NEW YORK ($)				**TOKYO (Yen)**			
Rises				Rises			
Cont Corp	18¾	+	4¼	Kanaie	770	+	20
Geneva St	13	+	⅛	Falls			
WMX	14⅛	+	½	Akebono Brk	608	-	17
Wal-Mart	22⅜	+	⅜	Chiba Bank	898	-	21
Falls				Dai Tokyo	674	-	26
Merill Lynch	35⅝	-	1⅛	Fuda Cons	505	-	23
Costco	14⅜	-	⅛	Yokohama Bk	660	-	30

New York prices at 12.30pm.

LONDON (Pence)							
Rises				Airsprung	221	-	21
Arlington Ests	80	+	6	Avon Rubber	494	-	26
Bass	519	+	15	Berkeley Grp	341	-	12
Blick	430	+	12	Callyns	275	-	8
Carlton Comms	968	+	16	East Mid Elec	715	-	23
CentreGold	113	+	7	Lamont Hldgs	345	-	14
Crown Eyeglass	200	+	10	Nth West Water	500	-	23
Freeport Leis	81	+	4	Scottish Power	341½	-	8½
Portals	818	+	45	VSEL	1336	-	107
Tomkins	201½	+	2				
Falls							

Deutsche dips on dimmer outlook

By Christopher Parkes in Frankfurt

Mr Hilmar Kopper, Deutsche Bank chairman, yesterday downgraded his assessment of business prospects, presented unexpectedly poor interim results, and prompted Frankfurt stock exchange traders to mark down the banking group's shares.

Announcing a 19 per cent fall to DM3.57bn ($2.39bn) in operating profits for the first 10 months – earnings at this level were up 1 per cent after six months – he predicted only a "satisfactory" outcome for the full 12 months.

That contrasted with his assessment of an "above average" performance at halfway after an "exceptional" year in 1993, and led analysts, due to meet board members tomorrow, provisionally to reduce their earnings per share forecasts for 1994.

Deutsche shares closed down DM2.50 at DM735.80 in Frankfurt yesterday, while Dresdner Bank stock, affected on Tuesday by worse-than-expected losses on own-account trading, recovered DM2.30.

According to Mr Kopper, Deutsche's earnings from its own account dealings – down 67 per cent at DM543m, the same proportion as at halfway – were generated mainly by equities trading.

The own-account securities business, on the other hand, was affected by DM327m in write-offs on bonds in the 10 months under review. Deutsche wrote down some DM147m on its bonds business in the first half.

Net commission income was virtually unchanged on the comparable part of 1993 at DM4.87bn after being up 6 per cent in the first six months. Interest earnings, unchanged at half-way, fell 2.7 per cent to DM9.5bn.

Heavy risk provisions, after rising during the recession, were needed to cover potentially bad loans, especially in the domestic market, Mr Kopper said.

About 95 per cent of the gross DM3.6bn set aside to the end of October (compared with DM4.4bn last time) was to protect credits outstanding in Germany, he added. About DM1.5bn of provisions were written back compared with DM1.3bn in the comparable part of 1993, reducing net provisions to DM1.6bn.

Group loans outstanding at the end of October totalled DM327bn. 1.8 per cent less than at the end of the last financial year. There was a fall of DM11bn in short and medium-term loans to customers, while long-term lending increased by almost DM7bn.

In keeping with tradition, yesterday's interim results were compared with ten-twelfths of the full 1993 figures. However, Deutsche also provided direct comparisons with the first 10 months of last year. On this basis, operating profits were down 15 per cent, commission income rose 7.4 per cent, and interest income was 2.2 per cent lower.

Lex, Page 16

Successful start to S African bond issue

By Graham Bowley in London and Mark Suzman in Johannesburg

Investors greeted South Africa's first international bond offering since the end of apartheid with enthusiasm yesterday, leading to an increase in the size of the issue from $500m to $750m.

The launch of the global issue of five-year bonds marked the country's return to international capital markets since the elections in April.

Its success suggests that the country's reintegration into the international financial community is now all but complete.

A flood of new issues from South African companies in the public and private sector may follow.

Many South African companies and institutions were closely watching the performance of the offering as a measure of the acceptability of South African bonds on the global market.

"Although the issue is small, the reception is a welcome signal of international confidence in the country's economic future," said Mr Tony Twine, an economist at Johannesburg-based consultants Econometrix.

"It will help smooth the way for other public issuers like [electricity utility] Eskom."

Eskom, the state-owned electricity utility, and Telkom, the telecommunications company, among others, as well as several private companies, are expected to approach the international capital markets in the coming months.

The South African government is expected to make a second issue, possibly after the next budget, due in March. "South Africa remains grossly underborrowed internationally, relative to other emerging markets of a similar size," says Annelise Peers, of Johannesburg brokers Frankel Pollak Vinderine. "There's room for a lot more borrowing."

As a result of the strong demand, the bonds are expected to be priced at the lower end of the launch spread of 193 and 198 basis points over US Treasury bonds.

The exact pricing is expected to be confirmed today.

Investor demand was greatest in the US, with European and Asian investors also making a strong showing.

Swiss Bank Corporation and Goldman Sachs are the banks arranging the deal.

Government bonds, Page 21

Hopewell alters credit measures after low rating

By Louise Lucas in Hong Kong

Hopewell Holdings, the property and construction group controlled by Mr Gordon Wu, has turned to two leading banks for loans of about HK$7bn (US$905m) after receiving a lower credit rating than other leading Hong Kong companies.

An indicative rating of only BBB- from Standard & Poor's Corporation has prompted a review of financial arrangements and a decision to rely primarily on bank borrowing.

Hopewell's subsidiary Consolidated Electric Power Asia, the main vehicle for the group's power projects, separately floated on the stock exchange last year, still intends to raise bond market finance.

Hopewell's indicated rating puts its senior debt just within the investment grade category. It compares with a single A rating received by Wharf (Holdings), which became the first important listing company to receive a rating earlier this year.

Yesterday's credit from Hongkong and Shanghai Banking Corporation and Hang Seng Bank, has a novel feature: the two banks will receive options to subscribe for new shares in Hopewell.

Hopewell will use most of the loans to pay the final installments on its partly-paid holding in CEPA. It bought 800m CEPA shares at the time of the power company's flotation, but paid only half the HK$10 a share price up front. A further HK$2.50 a share was paid off this week, using the loan proceeds. The remainder will be paid next December.

CEPA plans to issue a bond in the capital markets for which it will seek a credit rating. It will consider project bonds as part of the financing of its power projects in Asia, notably two current deals in Sual, the Philippines, and Tanjung Jati, Indonesia.

The options issued by Hopewell in connection with its loan will allow the two banks, both members of the HSBC group, to subscribe an aggregate HK$1.5bn for new shares in Hopewell from the beginning of next year up to December 5, 1999. They may only be transferred by the banks to their own holding companies or wholly-owned subsidiaries, and will not be listed on the stock exchange. Neither bank was last night available to comment.

If the options are fully exercised, Hopewell will issue 182.9m new shares, representing about 4.2 per cent of its existing issued share capital. The new shares are to be listed, subject to approval from the stock exchange.

The US dollar and HK dollar denominated secured loan facilities arrangements allow Hopewell to borrow up to US$744m (HK$5.8bn) and HK$1.2bn.

When CEPA was first listed, Hopewell took up the shares at HK$10 each, compared with the HK$12.50 offer price. On payment of the final installment, it is anticipated Hopewell's voting rights at general meetings of CEPA will increase to 61.6 per cent from 44.5 per cent. The interim payment sees voting rights exercisable swell to 54.6 per cent.

Patrick Harverson examines two US insurance deals

Putting a premium on cost-cutting and consolidation

Although the troubled US property and casualty insurance business is still a long way from recovery, industry analysts are hailing two deals this week – the $1.1bn acquisition of Continental Corporation by CNA Financial and the $420m rescue of Swedish-controlled Home Holdings by a group of US investors – as important steps in the right direction.

The industry is plagued by:
- over-capacity which has led to intense price competition,
- rising claims from natural catastrophes such as earthquakes and hurricanes,
- increasing pressure from regulators and ratings agencies to acknowledge longstanding asbestos and pollution losses, and
- declining capital among several big companies.

As a result, insurers have reported sharply lower earnings or losses on their property-casualty businesses, and the poor results have prompted the ratings agencies to downgrade the debt of several leading companies (including, in recent weeks, Cigna, Aetna, Continental and Home Holdings). The downgrades only exacerbate the industry's woes, because insurance agents and brokers tend to shy away from lower-rated companies.

In spite of this gloomy scenario, analysts say some of the the property-casualty industry's worst problems can be solved by cost-cutting and consolidation. Hence, the acclaim on Wall Street for Tuesday's announcement that CNA will be acquiring its troubled rival Continental - a deal which should enable the two companies to realise considerable economies of scale.

Ms Anna Iacucci, insurance analyst at the ratings agency Moody's, says the CNA-Continental merger is a welcome consolidation within the industry. "We have seen companies buying books of business or buying smaller companies ... but this is the largest yet."

The merger will create the seventh largest insurance company and the third biggest property-casualty group in the US, with combined assets of $58bn and revenues of $16bn. Although some observers expressed surprise that CNA – which has a reputation as one of the most conservatively run of US insurers under the ownership of the New York-based Tisch family – was buying a company plagued with losses, a capital shortage and doubts about the adequacy of its reserves, most said the deal made sense.

CNA will pay $20 a share in cash for Continental, a hefty premium over the pre-bid price of $14, but well below the insurer's $24.75 book value. Aside from the $1.1bn it will spend on acquiring Continental, CNA will also have to invest $275m which had been pledged by the investment group Insurance Partners in an earlier refinancing. CNA plans to finance the acquisition either with long-term debt, or some combination of debt and equity.

The immediate task is to wring as many cost savings possible out of the merger. The combined operations employ 21,000 people, and big job cuts are likely. Similarly, there will be considerable early gains to be achieved from merging back-office operations and systems. Benefits should emerge from combining CNA and Continental's complimentary product lines, most notably in personal insurance (particularly motor and home policies), commercial insurance and specialty insurance (especially marine and professional liability).

It is vital for CNA to achieve all potential cost savings because of fierce competition. Ms Iacucci says: "Both companies are competing in lines of business that face commodity-type pricing."

Some analysts believe the main impact of the merger will not be on pricing, but on other insurers' approach to cost cuts. Mr Alan Levin of Standard & Poor's believes that while the merger "will probably reduce the potential for a tightening of rates, because CNA is saying it will restructure itself to live in a world where rate competition is very high", it will also "put significant pressure on competitors, who will need to find ways to reduce their own cost bases".

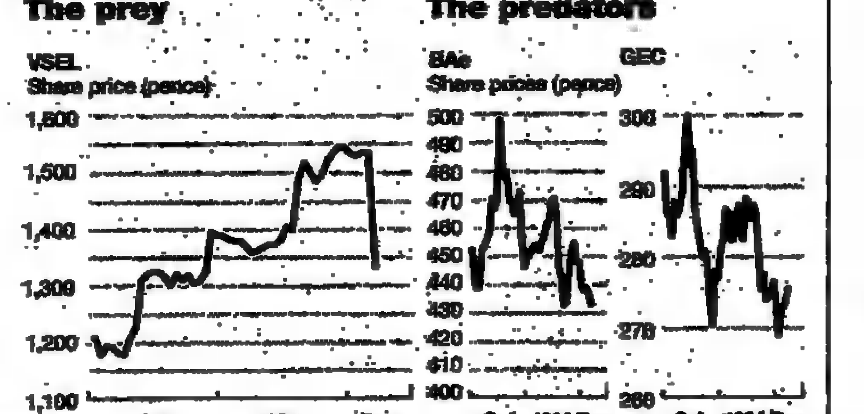
Although the rising claims, falling prices and inadequate capital that forced Continental into CNA's arms are the same problems that persuaded a group of US investors to bail out Home Holdings, the motivations behind the two deals are different. As Mr Levin points out: "CNA is a classic strategic investor. Jack Byrne and his group are classic financial investors. They believe they have uncovered a diamond in the rough and therefore they're buying at value. CNA is buying a company which it hopes to restructure fundamentally."

Under the deal between Mr Byrne and Home's current majority owner, the Swedish insurer Trygg-Hansa, the US investor group will inject $420m into Home in return for ultimately taking control. The deal is regarded as a much bigger gamble than CNA's purchase of Continental, because Home has some of the largest exposures to environmental losses.

Bernard Gray explains why both VSEL bids were blocked

Britain puts off a tough decision

The prey / **The predators**



Source: FT Graphite

For a UK government tenderly nursing its political bruises, the prospect of entering a very public fight over an obscure submarine maker cannot have been very appetising. Hence the stock market's assumption that the trade and industry secretary, Mr Michael Heseltine, would not refer either British Aerospace or General Electric Company to the Monopolies and Mergers Commission in their bids for VSEL.

What upset that calculation was the Office of Fair Trading's insistence that there was a competition issue raised by GEC's bid, since it already owns Britain's only other large warship maker, Yarrow on the river Clyde.

Once GEC was headed to the MMC, effectively freezing its bid, then the least contentious option was to send BAe too. Both now will face three months of scrutiny, GEC on competition grounds and BAe on the rather murkier issue of "public interest involving national security". Since BAe is not normally considered a threat to national security this phrase may more accurately be read as "political expediency".

Yet it was not supposed to be that way. The Ministry of Defence, currently VSEL's only customer, had raised no competition worries about either company. If the MoD as customer was not concerned, why should anyone else be worried?

It was the intervention of the Treasury which tipped the balance. The chancellor of the exchequer, Mr Kenneth Clarke, is thought to have been concerned about competition and argued that it was not the MoD but the taxpayer who was the customer. The MoD was a procurement agency and so should not dictate the public interest.

There is certainly a great deal for the MMC to mull over. UK defence competition policy seems to be heading in two directions. Market testing is introducing more competition to parts of the MoD, while shrinking defence budgets are forcing consolidation and a reduction in competition between defence companies. The MoD has so far reacted case by case, although a speech tonight by Mr Roger Freeman, defence procurement minister, may signal that the MoD is starting to frame a coherent policy to cope with the defence downturn.

> Once GEC was to be frozen, the least contentious option was to freeze BAe too.

For the companies involved in this battle, the next three months will require a great deal of management time to be spent at the MMC, one reason perhaps why GEC is considering whether it wished to continue.

BAe, which has said it will fight on, will also continue its restructuring programme. It has raised £178m as a result of the first phase of its rights issue. That money will probably be used to rationalise its turboprop regional aircraft business.

Negotiations between BAe and ATR, the Franco-Italian regional aircraft company, are progressing and a joint venture could be formed before the VSEL issue is resolved. BAe is also negotiating a merger of its missiles business with Matra, which also may be concluded in the next few months.

For VSEL shareholders and employees, the uncertainty continues. If the MMC investigation is drawn out, it might also interfere with the bidding for the next batch of Trafalgar class nuclear hunter-killer submarines.

That is due to be decided next year and GEC is a possible bidder against VSEL for the £2.5bn contract. It would be possible for the MoD to slow down the Trafalgar bids, but VSEL cannot afford to wait long as a gap is beginning to open up between the end of work on Trident and the beginning of Trafalgar.

Work on Trident has already been slowed once to ease that problem. But however politically convenient it is to stick VSEL into the deep freeze, the company cannot afford to wait for ever.

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Alcatel to buy 20% of mobile telephone unit

By John Ridding in Paris

Alcatel Alsthom, the French engineering and communications group, yesterday announced it is to buy a 20 per cent stake in the mobile telephone operations of Générale des Eaux, the utilities and construction company.

It will buy the stake from Crédit Lyonnais, the loss-making state-owned bank which is implementing a programme of asset sales as part of a rescue package. The price paid for the stake was not disclosed.

The decision by Alcatel to take the stake in Générale des Eaux's Cofira followed its failure in October to win the licence for France's third mobile telephone network.

Conclusion of the deal was delayed, however, by the need for approval from France's telecoms authorities, which yesterday granted permission for Alcatel to take a stake of up to 25 per cent in Cofira.

According to Alcatel, the investment in Cofira will be held by General Occidental, its media and communications subsidiary.

The company said this would allow "an absolute separation" between its activities as an equipment supplier and its new participation in a service provider.

Alcatel is one of the world's biggest telecoms equipment manufacturers, a factor which contributed to its failed bid for the mobile licence.

The fiercely-contested licence was awarded instead to Bouygues, the construction and communications group.

Mr Pierre Suard, Alcatel chairman, has long sought to enter the market for telecoms services. The company said yesterday the participation in Cofira, which operates one of the two existing mobile networks, confirmed its strategy of developing in this sector.

Industry observers forecast rapid growth in the French mobile telecoms market, which has trailed other European countries. At the end of August, France had 730,000 subscribers, compared with 3.2m in Germany.

Perstorp surges 66% to SKr551m for year

By Hugh Carnegy in Stockholm

Perstorp, the Swedish specialty chemicals and plastics group, yesterday reported a 66 per cent jump in profits after financial items, to SKr551m ($73.1m) in the year to the end of August, compared with SKr331m last time.

The improvement was attributed mainly to the benefits of investment in new products and new markets.

Mr Gösta Wiking, chief executive, said the group anticipated a further improvement in the current September-August fiscal year, in spite of rising raw material prices in the early stages.

He said the return from investments, favourable market conditions in North America and Asia, and an upturn in Europe were all having a positive impact.

Sales in the full year rose 21 per cent to SKr10.3bn from SKr8.6bn last time. Operating profits before depreciation reached a record SKr1.2bn, up from SKr930m.

Perstorp said sales improved in all its six divisions.

The three largest – surface materials, components and specialty chemicals – reported increased earnings. In surface materials, profits after depreciation more than doubled, to SKr269m from SKr104m.

However, profits were down at the biotech and plastic systems operations because of high development costs and weak market conditions.

The annual dividend was raised to SKr5.75 from SKr4.80.

SBC begins SFr121m rescue of canton bank

By Ian Rodger in Zurich

Swiss Bank Corporation, Switzerland's third largest bank, today begins an agreed SFr121m ($16.1m) rescue takeover bid for Solothurner Kantonalbank, the first Swiss cantonal bank to be fully privatised.

The way for the bid was cleared on Sunday when a majority of the voters of the canton of Solothurn supported privatisation rather than face the uncertain costs of restoring the bank to health.

Other cantons are expected to follow the Solothurn example, as competition in Swiss banking intensifies.

The bank's SFr170m share capital, entirely owned by the cantonal government, is being completely written off. SBC, however, is paying a net SFr113m for goodwill.

Holders of the 400,000 dividend participation certificates issued to the public in 1987 at SFr220, and in 1989 at SFr200, are being offered SFr20 in cash for each certificate, or a two-year option worth SFr22 to buy SBC registered shares.

SBC is also offering each certificate-holder the right to open a savings account up to SFr50,000 in the successor bank, to be known as Solothurner Bank. These accounts will carry an interest rate 1 per cent above that on a senior citizen's account for two years. SBC estimates the value of this offer at SFr70 per certificate.

Solothurner Kantonalbank has SFr1.2bn in uncertain loans, against which it has SFr475m in provisions.

The canton has agreed to pay SFr34m towards interest provisions in 1996 and in 1997, and then guarantee a further SFr125m after 1998.

Its overall guarantee on the bank's affairs will stand until the end of 1996, or until the expiry of existing term deposits.

SBC will operate the new bank, with its 22 branches and 460 employees, separately from its own retail network.

France tests interest in media superhighway

By John Ridding

Mr Nicolas Sarkozy, the French budget and communications minister, yesterday called on private-sector companies to take part in trial services to prepare the way for a planned information superhighway.

"I don't want just France Télécom to respond," he told a conference in Paris, in a reference to the state-owned operator. "One system for experiment could be exclusively private, one public and one mixed," he said, referring to trial services to be launched at a local level next year, after a selection process in the spring.

The services are aimed at testing technologies, equipment and regulations for the government's plans to develop a national information superhighway by 2015.

The network, aimed at enabling the transmission of data, voice and images, has drawn interest from French telecoms and communications groups such as Alcatel, Générale des Eaux and Lyonnaise des Eaux.

Nicolas Sarkozy: 'I don't just want France Télécom to respond.'

The last two are principally involved in water distribution and public works, but have diversified into media and telecoms. Media and retail companies have also expressed interest in providing multimedia services.

Both Mr Sarkozy and Mr José Rossi, the industry and telecoms minister, outlined a pragmatic approach to the development of an information superhighway. "We must avoid the temptation of a *dirigiste* approach," Mr Rossi said, citing previous policy errors.

In particular, the Plan Cable, launched in the early 1980s and designed to provide a national cable-television network, has failed.

Cable operators have suffered big losses, and the country has one of the lowest subscriber rates in Europe. Mr Sarkozy said he hoped to use the national cable-television network for information services. "It would be bad if the FFr40bn [$7.4bn] invested in these networks turned out to be wasted," he said.

However, a report commissioned by the government from Mr Gérard Théry, the former managing director of France Télécom, has called for a substantial investment in new infrastructure to achieve the government's objective.

According to the report, an investment of up to FFr200bn is needed by 2015. Much of this would be used to extend a fibre optic network.

Yesterday's conference drew interest from French and international business groups.

Mr Jacques-Henri David, managing director of Générale des Eaux, said his company hoped to participate in the trials, offering telecoms and media services through its existing cable networks, as it does in the UK via its General Cable division.

He said the company also planned to work with partners from the computer and telecoms equipment industries to develop other services.

Mr Marcel Roulet, chairman of France Télécom said the state-owned operator would participate in the trials by providing networks, services and the systems which co-ordinate services and their distribution.

Credito Italiano cleared to relaunch bid

Rolo investors will decide whether to accept a new offer, writes Andrew Hill

The Bank of Italy, which supervises Italy's fragmented banking sector, has given Credito Italiano (Credit), the Milan-based bank, the formal go-ahead to launch an improved bid for 65 per cent of Gruppo Bancario Credito Romagnolo (Rolo) of Bologna.

The central bank's approval, which came late on Tuesday, removes another hurdle from Credit's path, but it could be well into the new year before it knows whether it has persuaded Rolo's shareholders that its approach is a friendly one.

In the meantime, the door has been left ajar for a counter-bid.

At a crucial board meeting on Saturday night, Rolo directors agreed unanimously that Credit's plans for a new offer respected shareholders' and the group's interests more than the Milan bank's original proposal. Those proposals were announced at the end of October and promptly rejected as hostile and inadequate.

Although Rolo's attitude to the new plan was widely interpreted as supportive, the bank has since made clear that shareholders alone must decide on the merits of the new Credit offer.

While they are ruminating, Cariplo, the Milan-based savings bank, is understood to be considering an alternative offer. This would probably be in alliance with IMI, the former state-controlled financial services and banking group, and supported by Bank Austria, in which Cariplo has a stake.

It is unlikely to make a move until Credit has formally launched its own bid, but the terms Cariplo and its allies would have to beat are already clear.

Credit has said it will offer L20,000 for each Rolo share, compared with L19,000 in the original plans, and extend the offer to 65 per cent rather than 48 per cent of the company. If successful, Credit would pay some L2,800bn ($1.7bn) for the 65 per cent stake.

Under Italian takeover rules, the overall value of a counter-bid would have to be at least 5 per cent higher – a requirement which could be met by bidding for more shares or increasing the price per share.

Funding a bid is unlikely to be the main challenge for Cariplo. Like many Italian banks, it is unquoted and controlled by a charitable foundation. Earlier this year, the bank postponed plans for a L1,650bn share issue which would have given it a stock market listing for the first time in its 170-year history. But the bank was not compelled to raise funds, and advocates of a counter-bid believe Rolo is within Cariplo's range.

More important for Cariplo is that it should win an enthusiastic recommendation from the Rolo board.

This could be more problematic, given the conflicting reactions to Credit's latest plans, welcomed as "friendly" by Mr Carlo De Benedetti, Olivetti's chairman and one of Rolo's largest shareholders, but still eyed with suspicion by some local investors.

Source: FT Graphite

Credit itself had to work hard to win even Saturday's dry statement from the Rolo board, struggling to dispel the impression that Rolo might simply disappear inside a less efficient "national" bank.

Credit, privatised only a year ago, has argued strongly that it should not be judged only on the basis of relative efficiency. Until the late 1980s, it and other large Italian banks were constrained by archaic Italian banking regulations to operating in parts of Italy – in particular Lombardy and Piedmont – dominated by mature industry.

Smaller banks in regions such as Emilia Romagna, where Rolo operates, have been able to take advantage of the faster growth of dynamic small and medium-sized export-led companies.

Managers of some of [illegible] companies in Emilia Romagna point out, however, that their needs tend to leapfrog national banks such as Credit. Either they require local service, from small regional banks, or detailed export advice and support in foreign markets, where the likes of Credit (and Cariplo, for that matter) are still outclassed by well-established investment banks.

"Small entrepreneurs need a frank relationship with bank managers, and I think it's difficult for bank managers to assume responsibility for decisions if they are employed from Milan or Turin," says Mr Manlio Maggioli, president of the local employers' association in Rimini, on the Romagna coast.

To win over such clients – and, in turn, a whole range of local Bolognese interests from the church to academia – Credit has now made firm commitments, albeit with a time limit, to preserving Rolo's strong regional identity, maintaining a healthy dividend policy, and giving minority shareholders board representation.

Consob, the Italian stock exchange watchdog, is expected to approve the new Credit plan at the end of this week, or the beginning of next.

This would allow Credit to announce the detailed terms of its bid formally around the middle of next week and launch it a week later with a closing date in mid-January.

Whether or not Cariplo then decides to enter the fray, it is clear the complex struggle for control of the Bolognese bank could finally be won or lost on Rolo's own territory.

SIA and Tata in software venture

By Kieran Cooke in Kuala Lumpur and Stefan Wagstyl in New Delhi

Singapore Airlines (SIA) has linked up with India's Tata industrial grouping to form a joint venture company to develop computer software. The new company, to be based in India, will concentrate initially on developing SIA's computer system.

The move is the latest by international companies to make use of the plentiful supply of high-skill, low-cost software engineers in India. Airlines, hotel chains, banks and other operators of large computer systems are among those which have moved parts of their programming operations to India.

SIA is increasingly moving its backroom operations out of Singapore because of labour shortages and also to cut costs. Last month, Singapore's national carrier announced it would be moving part of its accounting operations to China.

SIA said that India was a good choice for developing computer systems due to the country's many information technology professionals. "India has the third largest pool of software development expertise in the world after the US and the former Soviet Union," said SIA.

An SIA study recently recommended that the airline join with the Tata group to form a joint venture domestic Indian airline. It is believed that SIA would have a 40 per cent stake in such an airline, with Tata controlling the remainder.

The Indian government is expected to announce soon the conditions under which foreign investment is to be permitted in the fledgling domestic air industry. About 10 companies have been launched since private capital was permitted into the industry two years ago. Exceptionally, one already has foreign shareholders – Jet Airways, which is partly owned by Gulf Air and Kuwait Airlines.

◆ Rolls-Royce has scored its first success in Singapore's fast-expanding airline market with Silk Air, a wholly-owned subsidiary of SIA, selecting two of the RR Tay-engined Fokker 70s for services on regional routes.

Airline industry analysts say RR is also favoured to supply its new large Trent engines for the latest stage in a multi-billion-dollar fleet expansion and renewal programme being undertaken by SIA. The Singapore carrier has traditionally chosen American Pratt & Whitney engines for its large aircraft.

Brierley set to sell 28% holding in publisher

By Terry Hall in Wellington and AP-DJ

Brierley Investments, the New Zealand based hotels and investment company, said yesterday it would sell a 28 per cent stake in newspaper publisher Wilson and Horton, but only if Wilson and Horton could find a suitable buyer willing to pay the right price.

Brierley said in a statement it had told the Wilson and Horton board that it acquired its 28 per cent stake in the company early [in November]... *with the intention of* becoming a "long-term, supportive shareholder". However, "the board of Wilson and Horton considers it would be in the best interests of the company to have a media industry participant as a strategic shareholder."

Brierley's purchase of a stake in Wilson and Horton, costing NZ$280m (US$177m), prompted speculation about an imminent takeover bid. Horton family interests, which control the company, subsequently maintained they had sufficient support to block any bid by Brierley for the newspaper group.

Instead, Brierley has agreed to sell its holding in Wilson and Horton if a buyer can be found willing to pay a price that reflects the "strategic value" of its stake. "In the light of the Wilson and Horton board's view, Brierley is allowing Wilson and Horton an opportunity to identify a suitable purchaser for its holding," Brierley said.

A number of overseas media industry participants have already expressed an interest in buying the stake, Brierley said, and discussions were continuing with these, and other, prospective buyers.

Wilson and Horton directors initially accepted Brierley as the new majority shareholder, but subsequently reversed this position in a campaign led by its chief executive, Mr Michael Horton, a great grandson of the founder of the 127-year-old company, and his son, Matthew, the business editor of a Murdoch-controlled Australian tabloid, the Telegraph Mirror.

The prospect of another bid for Wilson and Horton surfaced late last week when a mystery bidder bought 3.6 per cent from UK shareholders for NZ$36m. Both Brierley and Wilson and Horton, who between them control more than 50 per cent of the shares, say they do not know the identity of this buyer.

On the New Zealand stock exchange yesterday, Brierley's shares closed down 1 cent at NZ$1.17 Wilson and Horton's were unchanged at NZ$9.15.

SA group sells 80% stake in catering arm to consortium

By Mark Suzman in Johannesburg

Tongaat-Hulett, the South African food and industrial group, has sold an 80 per cent stake in Supervision Food Services, its catering arm, to a consortium of black investors for R53m ($13m).

Mr Cedric Savage, Tongaat-Hulett chairman, said in Johannesburg yesterday that the company had felt for some time that SFS did not fit into Tongaat's current focus on branded products, and thus it was an ideal operation to spin off as a new initiative in black business development.

"The move is a major step in the group's black economic empowerment programme, which is to facilitate participation of black entrepreneurs and managers in businesses complementary to our core activities," he said.

The new investors comprise the Kagiso Trust Investment Company, the business arm of the Kagiso Trust, a non-profit body that helps finance urban and rural development schemes, Khulani Holdings, a private black company, FirstCorp Capital Investors, the investment arm of merchant bankers FirstCorp, and Supervision's senior management, each of which have taken 20 per cent in the company.

Mr Eric Molobi, the Trust's executive director, will be chairman of SPS, which will be renamed Kagiso Khulani Supervision Food Services, while existing management will be kept in place. SFS has long been one of South Africa's largest catering companies and has 5,000 employees and a turnover of R320m.

Regulatory focus shifts to protection for customer

DERIVATIVES

Eighteen months ago, the popular concern about derivatives in regulatory and political circles was their potential threat to the integrity of the banking system. Good old boys with banking roots fretted that these new fangled financial gizmos with trillion-dollar valuations might somehow set off an economic catastrophe of undetermined depth and severity.

Derivatives dealers have since successfully educated *their detractors, convincing* entities as notable at the Federal Reserve and the Bank for International Settlements that further regulation is not required. As 1994 comes to an end, not one piece of new derivatives legislation has been enacted in the US.

A cornerstone in the derivatives community's defence was an industry-funded report by the Group of Thirty (G30), issued in July 1993, that recommended guidelines for managing derivatives. So long as prudent risk management practices are followed and understood, derivatives offer no more of a financial threat than conventional securities such as bonds or shares, the report suggested.

The report offhandedly stated that it was a good idea for derivatives end-users, as well as dealers, to adhere to these "best practices" recommendations. However, when questioned closely, prominent backers of the G30 recommendations, including J. P. Morgan chairman, Sir Dennis Weatherstone, said they did not believe it was a dealer's responsibility to give customers the tools to perform these risk-monitoring tasks.

This attitude, that derivatives end-users are sophisticated enough to take care of themselves, has come back to hit the dealing community a serious blow to their flank.

Among the many sore losers in interest rate derivatives transactions this year, the most prominent has been Procter & Gamble, the consumer products group. In its lawsuit against Bankers Trust, it claims a derivatives dealer engaged in misleading sales practices, and failed to provide the information the corporation needed to properly monitor the value and risks of its derivatives position.

That suit remains in court. However, this week Bankers Trust consented to a written disciplinary agreement with the Federal Reserve, promising, among other things, to give reasonably transparent pricing and valuation information, sometimes on a daily basis, to customers who are counterparties in leveraged derivatives transactions.

It is clear from the Federal Reserve's broad statement attached to the agreement that the regulatory focus on derivatives has now shifted from systemic banking concerns to customer protection.

"Banking institutions engaged in derivatives activities," the Fed said, "should maintain effective policies and procedures relating to client selection, sales practices, and pricing and valuation." Client suitability and sales practices standards are common in the securities industry. However, assisting clients with transaction pricing and valuation once a deal is done is not common, or particularly necessary in larger, more liquid and more transparent deals in conventional bond, foreign exchange, or equity markets.

With leveraged derivatives, where deals are structured individually to meet a client's needs and where pricing is done by the dealer as counterparty, it can be nearly impossible for an end-user to measure, as is recommended by the G30,how much of the investment could be lost given changes in market parameters, across the term of the deal.

The customer is almost always dependent on the dealer for this information, a factor that apparently is attracting more regulatory attention.

In fact, insiders expect that now Bankers Trust has settled with its chief regulator, the Fed, two other agencies, the Securities and Exchange Commission and the Commodity *Futures Trading Commission* will also issue disciplinary judgments. Neither agency will comment on this, but it appears both are anxious to demonstrate their interest in OTC derivatives cases to an extent that frightens lawyers for trade groups such as ISDA.

The "hawks" in the derivatives dealing community contend that OTC derivatives are neither securities nor futures, and so do not come under the jurisdiction of either the SEC nor the CFTC. However, there is little to stop either or both agencies from extending their reach by issuing enforcement actions in a derivatives case.

An aside to all the derivatives publicity this week has been the G30's release of a follow-up survey to its 1993 internal controls recommendations.

Buried in the data was news that 50 per cent of the biggest end-users surveyed allow their treasury departments to use derivatives to create risk exposures rather than just perform hedge functions.

The survey showed that more than a quarter of even the smallest end-users allow their derivatives managers to speculate. Less surprising, but equally revealing, the treasury departments of dealing firms themselves are allowed to use derivatives to create risk exposures, rather than to mitigate them. The G30 survey said 58 per cent of dealers gave this freedom to treasury operations.

Laurie Morse

Foster's in third China venture

Mr Ted Kunkel, chief executive of Foster's, the Australian brewing group, confirmed yesterday that the company was in negotiations over a third joint venture in China, in Tianjin, writes Nikki Tait.

The company already has two joint venture operations at Shanghai and Guangdong, and said earlier this year that other opportunities were being evaluated.

Foster's has been stressing the role which Asian opportunities could have for its longer-term strategy.

Malaysia Mining plans to buy NCL stake

By Nikki Tait in Sydney

Malaysia Mining Corporation, one of the country's largest resources groups, is proposing to buy a 45 per cent stake in National Consolidated (NCL), the listed Australian engineering group, for about A$110m (US$84m).

The purchase, which is subject to various approvals, would be the latest in a series of Australian investments taken by MMC. It already holds stakes in Ashton Mining, the diamond mining company, and Plutonic Resources, the gold-mining and minerals exploration group.

The seller in this case is Tooth & Co, an investment holding company and part of the troubled Adsteam group. Tooth currently owns almost 49 of National Consolidated, and proposes to retain a 3.74 per cent stake if the MMC sale, at A$1.26 a share, is approved. Adsteam itself owns a further 17.8 per cent of National Consolidated.

The sale is subject to approval from National Consolidated and Tooth shareholders, Australia's Foreign Investment Review Board, and Central Bank Malaysia. Tooth has also granted MMC an option over 19.9 per cent of National Consolidated's shares, exercisable if a third party emerges to bid for NCL and shareholder approval for the Tooth/MMC deal is not forthcoming.

Yesterday, in a statement, MMC said that it was not "the present intention of MMC to launch a takeover bid for NCL but, as in the case of its other large investments in Australian listed companies, to maintain a substantial long term shareholding".

The company pulled out of tin mining, previously its core activity, last year, and has been diversifying activities. NCL returned to profit in 1993-94 after several years of losses, on a reduced sales base of just over $200m, having sold its building materials operations in 1993.

Reliance merger gains approval

Shareholders in Reliance Industries, the Indian petrochemical and textiles company, have approved a plan to merge two group units, Reliance Polypropylene and Reliance Polyethylene, Reuter reports from Bombay.

India's financial institutions, which own *16 per cent of Reli*ance Industries, and Japan's Itochu Corp, a minority shareholder in the other two companies, approved the merger, the company said. Shareholders gave assent on Tuesday.

Indonesia looks for strategic Garuda investor

Indonesia plans to sell a stake in the national flag carrier, Garuda Indonesia Airways, to a foreign investor through a *direct placement before offer*ing its shares on the stock market, according to local press reports, AP-DJ reports from Jakarta.

"The strategic investor must be a foreign airline which has a good reputation internationally," Mr Mar'ie Muhammad, Indonesia's finance minister, was quoted in the Jakarta Post *as saying. He said the govern*ment would tender the sale of the stake among prospective investors who would be able to improve the performance of the 45-year-old airline. However, he declined to say what percentage of Garuda would be offered.

He said that Garuda was still a long way from being able to *list its shares on the stock mar*ket, and finding a "strategic investor will help the performance of Garuda before it can meet the requirements for going public".

Garuda's latest financial report was given qualified opinions from the government audit agency. After-tax profit in 1993 dropped about 21 per cent to Rp73.44bn *($2.3bn)* from Rp92.98bn in 1992.

The finance minister said the privatisation of the airline would also make it more independent financially from the government.

Whirlpool buys majority of Chinese microwave unit

By Andrew Baxter

Whirlpool, the world's largest producer of white goods, is expanding its presence in the fast-growing Chinese home appliance market by acquiring a majority stake in SMC Microwave Products, China's largest microwave producer.

The deal will make Whirlpool one of the top five microwave oven producers worldwide. It comes two days after Whirlpool signed an agreement with China's Snowflake Electrical Appliance Group to make refrigerators at a Beijing plant. Whirlpool is already a partner in SMC, a joint venture company with annual revenues of $100m.

Terms were not disclosed, but Whirlpool said the current partners, Shell Electric Manufacturing (Holdings) and Shunde County Beijiao Economic Development Company, would hold minority stakes in the venture.

SMC has about half of the Chinese microwave market, which totals about 500,000 units a year, and exports more than 500,000 units to other Asian, European and Latin American markets from its factory in Shunde, Guangdong province. Whirlpool said it expects SMC to produce about 1.5m units a year by 1997.

The rapid growth forecast for the Chinese white goods market is attracting growing interest from western producers. Last month, Munich-based Bosch-Siemens said it would link up with China's Wuxi Little Swan to build a washing machine factory in China.

Whirlpool said talks with Chinese manufacturers for washing machines and compressors were "progressing smoothly" and could result in joint venture agreements in early 1995.

Price/Costco plans withdrawal from joint venture in Mexico

By Richard Tomkins in New York

Price/Costco, the US discount retailer that last year took its first step into the UK, has decided to pull out of Mexico by selling its 10 membership warehouses there to its joint venture partner.

The move is a setback for the company because its scope for further expansion is limited in its saturated domestic market. It also highlights the difficulties retailers face in attempts to spread outside the US.

Price/Costco's shares, quoted on the Nasdaq screen-based market, were down $⅝ at $14¼ in early trading yesterday.

According to news agency reports, Price/Costco has entered a non-binding expression of intent to sell its Mexican operations to Controladora Comercial Mexicana for $95m. Price/Costco had no one available for comment yesterday.

Three years ago, Price/Costco became the first US discount retailer to enter Mexico when it set up Price Club de Mexico with Controladora Comercial Mexicana. It has invested $71m in the venture.

According to a prospectus filed with the Securities and Exchange Commission, the Mexican stores are profitable, but sales at stores open a year or more have been declining for the past three months.

The prospectus cites growing competition, a slowdown in the Mexican economy, and dilution of sales at existing outlets as the venture opens new stores.

Saturation of the US retail market has led an increasing number of US retailers to look outside their domestic market for growth. With last year's signing of the North American Free Trade Agreement, Mexico and Canada have become two popular areas for expansion.

Recently, however, there have been signs that the number of store openings in Mexico is far exceeding the rate of growth in the population's spending power. US retailers have also had to contend with unfamiliar distribution systems, and have sometimes struggled to provide the goods that Mexicans want at prices they are prepared to pay.

Price/Costco's difficulties have been exacerbated by the arrival in Mexico of Wal-Mart Stores and Kmart. Both companies have set up joint ventures there, and although Kmart's presence is still small, Wal-Mart had 52 stores as of October 31.

BCE Mobile to raise C$213m for expansion

By Robert Gibbens in Montreal

BCE Mobile, the fast-growing Canadian cellular communications and paging company which is 65 per cent owned by BCE, plans to raise up to C$213m (US$155m) in debentures to refinance existing long-term debt and support system expansion.

The cellular business has grown at an average annual rate of 25 per cent since the company was launched nine years ago.

Growth is expected to rise to 40 per cent in 1995.

BCE Mobile plans to expand its networks, geographically and by adding equipment in large metropolitan areas.

Refinancing will take C$88m of the new issue.

● Morgan Stanley, the New York investment banker, has been appointed financial adviser for the financial structure of the US$2bn Odyssey low orbit wireless communications system planned by TRW of the US and Teleglobe Inc, of Montreal.

Daimler approves micro car production

By Kevin Done, Motor Industry Correspondent

Daimler-Benz, the German engineering group, has given formal approval for the production of the pioneering micro city car that is being developed through a joint venture between Mercedes-Benz, its automotive subsidiary, and SMH, the Swiss watch maker.

The company will decide this month on the site for a new assembly plant for the project, but is expected to choose a site in France, the first time Mercedes-Benz will have chosen to assemble vehicles in the country.

Mercedes-Benz is planning a radical approach to car assembly, with a modular assembly system relying heavily on outside suppliers.

The company said yesterday that the level of vertical integration – the share of in-house production versus bought-in components – would be cut to 20 per cent from 45 per cent of existing Mercedes-Benz car operations.

More than half the components and systems for the micro car will be supplied from existing Mercedes-Benz plants or other suppliers in Germany, with the remainder from components producers in west Europe.

The "unusually low" level of vertical integration was a precondition for producing the car at a very low cost and "highly competitive prices", the company said.

Mercedes-Benz, which holds a 51 per cent stake in the Micro-Compact-Car joint venture, and SMH, the maker of Swatch watches, which holds 49 per cent, aim to launch the "micro compact car" in Europe by 1997/98, with an initial production capacity of 100,000 to 150,000 cars a year.

They aim to open up a new segment at the bottom of the European car market for a two-seater urban micro car that would be only 2.5m long – significantly shorter than the Mini – allowing it to be parked in congested cities head-on to the pavement.

Hopes for happy ending at MGM

Its new films are critical for sale prospects, writes Alice Rawsthorn

According to the critics, *Stargate* was sure to fail. Rolling Stone magazine described the $70m science fiction film as a "giant-size loser", "oppressively snoozy" and "hell" to watch.

Yet *Stargate* has been one of the most successful films in the US this autumn, taking $61m in five weeks, according to Variety magazine.

Its success could not have been better timed for MGM, its US distributor, which is struggling to regain its reputation as one of the great Hollywood studios.

Crédit Lyonnais, the state-controlled French bank which reluctantly took over MGM in a 1992 bankruptcy case, is compelled under US law to reduce its investment to 25 per cent by May 1997. It has appointed Mr Frank Mancuso, a long-time Paramount executive, as MGM chairman with a brief to prepare it for sale.

Stargate was one of the first films to be released after Mr Mancuso's arrival in July 1993. It is also in the forefront of a series of new films which MGM and United Artists, its sister studio, will release over the next year. Mr Mancuso sees *Stargate* as "a great start" that "shows what we're capable of". However, he is well aware that the next releases will be critical in determining the prospects for MGM's sale.

The company was a wreck when Mr Mancuso arrived. United Artists was defunct. MGM had sold its famous production lot at Culver City to Sony, the Japanese electronics group. It had also sold its library to Mr Ted Turner, the CNN television mogul, although the company had held on to the UA library of 1,500 films.

> Crédit Lyonnais hopes it will sell MGM for more than the estimated $2bn it has sunk into the company.

Mr Mancuso's first objective was to assemble a new team to revitalise MGM and to resuscitate UA. He hired Mr Michael Marcus, an executive at CAA talent agency to head MGM and Mr John Calley, a veteran US producer, to run UA.

Mr Calley's appointment was a popular choice in Hollywood. Mr Mancuso also scored points for shoring up MGM's finances by securing a $350m revolving credit line from a consortium led by Chemical Bank, in addition to a $400m commitment from Crédit Lyonnais.

However, Mr Marcus was accused of favouring his old CAA clients at MGM. The group's troubled history was also said to deter stars and directors from signing up with the studios.

MGM and UA are now set to release 20 films over the next year. The premieres begin with next week's US opening of *Speechless*, a comedy starring Mr Michael Keaton and Ms Geena Davis. Next year's releases include a film version of *Tank Girl*, the cult cartoon, and *Rob Roy*, a historical epic starring Mr Liam Neeson, culminating with the Thanksgiving Day premiere of *Goldeneye*, the new James Bond film.

Releasing films is not enough. As one rival studio chief said: "So what if they're opening 20 new movies? That could mean 20 opportunities to lose money."

However, *Rob Roy* and *Tank Girl* have attracted favourable advance publicity and Mr Mancuso claims to be confident that the group's 1995 performance will be "at least in line with the industry average".

He has also been building up other parts of the business. MGM Television has been relaunched by adopting what he calls the "bread and butter approach" to television with *LAPD*, a police drama, and a new series of UA's *The Pink Panther*.

Mr Mancuso's latest venture is to try to copy the retailing success of Walt Disney and Warner Brothers with the opening this month of a flagship MGM Studio Store.

Film studios are sought-after commodities – as illustrated by the recent fight for Paramount. MGM may be in very different shape from the profitable Paramount, but is still, according to Mr Michael Kuhn, chairman of PolyGram Film Entertainment, "a great brand name".

The success, or failure, of *Speechless* and the 1995 releases will help determine how high that price will be. There is also the possibility of Mr Mancuso joining the fray by mounting a management buy-out.

"That was one of the reasons why I took this job," he said. But this does, of course, leave Mr Mancuso in a tricky position – given that the more successful he is at reviving MGM, the higher the price of the company will be.

Phelps Dodge to take $135m charge in quarter

By Laurie Morse in Chicago

Phelps Dodge Corporation, one of the world's largest copper producers, said it would take a one-time pre-tax charge to fourth-quarter earnings of $135m to reserve funds for environmental clean-ups and for losses related to closing unspecified operations.

The charge, which on an after-tax basis will amount to about $87m, or $1.22 a share, was unexpected on Wall Street, where securities analysts had forecast the company's fourth-quarter earnings at about $1.34 a share. Phelps Dodge's share price dipped $⅝ to $57⅞ in mid-day trading in New York.

Of the total charge, $100m will go to environmental reserves. Including this amount, Phelps Dodge will have a year-end reserve for environmental matters of about $164m.

The remaining $35m pre-tax charge will cover losses associated with shutting down unspecified operations before the year end.

Mr Douglas Yearley, chairman, said: "The operations being closed or sold are peripheral to our business and their disposition should not have any adverse effect on the company's future earnings." He said the portion of the charge related to environmental matters represents the company's "reasonable estimates for future environmental obligations".

A&P cuts payout and makes $165m provision

By Richard Tomkins

Great Atlantic & Pacific Tea, the troubled US supermarket group better known as A&P, has slashed its quarterly dividend to 5 cents from 20 cents and announced that it would take an after-tax charge of $165m in its third quarter to December because of continuing problems with its Canadian operations.

It also warned that these actions would make it necessary to seek a renegotiation of its covenants with bank lenders, but said it believed fresh agreements would be achieved on satisfactory terms.

A&P, which is 52 per cent owned by Tengelmann, the German food retailer, made net profits of $379,000 on sales of $2.3bn in last year's third quarter.

The company said its US operating results had posted a strong improvement, but its Canadian operations were showing substantial losses.

As a result, it was taking a third-quarter charge to include the write-off of goodwill, previously recognised tax benefits and certain long-lived assets of its Canadian subsidiary.

A&P said it was strengthening its efforts to turn round the Canadian operations which were suffering from low-cost competition. It said it would convert a number of Canadian stores to low-cost formats, resulting in a further pre-tax charge of $25m.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for trading on 08.12.94: Pool purchase price £/MWh	Final Prices for trading on 18.11.94: Pool purchase price £/MWh	Pool selling price £/MWh
0030	10.03	10.04	10.04
0100	25.30	23.18	25.28
0130	29.94	23.18	25.28
0200	28.94	23.18	25.28
0230	19.61	23.18	25.28
0300	9.61	23.18	25.28
0330	9.61	9.35	11.45
0400	9.29	9.35	11.45
0430	9.29	8.35	11.45
0500	9.09	9.22	9.22
0530	24.41	8.25	8.25
0600	24.41	9.35	11.45
0630	24.41	9.35	11.45
0700	29.99	29.84	31.74
0730	30.70	31.20	33.30
0800	35.11	31.20	33.30
0830	44.12	31.67	33.76
0900	44.42	31.58	33.76
0930	44.53	31.69	33.79
1000	44.56	35.49	37.59
1030	44.51	35.48	37.58
1100	35.76	31.69	33.80
1130	36.08	35.49	37.59
1200	45.29	35.50	37.61
1230	45.35	47.04	49.14
1300	36.45	47.03	49.14
1330	35.46	31.68	33.78
1400	35.38	31.68	33.78
1430	32.77	31.67	33.77
1500	32.73	31.67	33.77
1530	33.88	31.68	33.78
1600	58.61	31.88	34.04
1630	187.26	43.91	46.02
1700	278.60	94.19	106.67
1730	303.37	110.74	123.65
1800	212.11	104.21	116.03
1830	112.28	69.00	75.81
1900	66.07	50.36	54.12
1930	44.77	46.39	48.05
2000	36.72	43.71	45.92
2030	31.07	40.05	42.17
2100	30.78	31.68	33.78
2130	30.65	31.60	33.70
2200	30.12	31.20	33.30
2230	29.68	29.55	31.65
2300	29.42	31.20	33.30
2330	29.64	23.42	25.52
2400	10.03	9.22	9.22

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.86/MWh becomes 1.886p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their [illegible]

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Gilts rally sharply on rise in UK base rates

GOVERNMENT BONDS

By Conner Middelmann

Most of the action in the European government bond markets took place in the UK, where gilts were whipped around by political worries and an interest rate increase by the Bank of England.

Gilt prices fell ½ point at the opening on the government's parliamentary defeat over increasing VAT on domestic fuel. However, they rallied sharply on the Bank of England's unexpectedly early announcement that it was raising its minimum lending rate by ½ percentage point to 6¼ per cent, nipping mounting rate-rise speculation in the bud.

This supported the auction of 10-year gilts, which was in full swing when the rate rise was announced, and dealers reported good retail interest in the issue.

Although weakness in the US Treasury market depressed gilts in the afternoon, they ended the day in positive territory, with the March long gilt futures contract on Liffe up 9/32 at 101 23/32.

Before the rate rise, the sharp fall in gilt prices caused their yield spread over German bunds to widen as far as 150 basis points but the rally which followed the tightening pushed it back to 134 basis points at the close.

"The general reaction to the move was favourable, and people were especially impressed with the speed with which it was done," said Mr Adrian James, bond strategist at NatWest Markets.

Some traders complained that the base rate increase – announced only some 20 minutes before the deadline for auction bids – left them little time to formulate their bids.

However, "it was probably the best they could do under the circumstances", said one dealer. "If the Bank had waited, it would have run the risk of not getting enough bids in."

The bid-to-cover ratio for the Bank's £2bn of 8.5 per cent gilts due 2005 – next year's 10-year benchmark – was a respectable 1.34. Allotment at the lowest accepted price of 98 11/32, where the bonds yield 8.66 per cent, was 98 per cent.

The average accepted price was 98 13/32 with a yield of 8.64 per cent, giving a tail – the difference between the highest accepted yield and the average accepted yield – of two basis points.

■ German bonds ended slightly lower, in sympathy with the US market. The March bund futures contract on DTB fell by 0.21 to 90.84.

Dealers will focus today on third-quarter gross domestic product and November jobs data. The Bundesbank council is expected to leave interest rates unchanged.

■ US Treasury prices fell from Tuesday's highs yesterday morning after the chairman of the Federal Reserve said he continued to be concerned about inflationary pressures in the economy.

By midday, the benchmark 30-year government bond was down 11/32 at 95⅜ to yield 7.899 per cent. At the short end of the market, the two-year note was 1/32 lower at 99 21/32, yielding 7.491 per cent.

In Congressional testimony, Mr Alan Greenspan, the Fed chairman, said he expected producers to begin to try to pass on increased raw material costs to consumers and said the Fed's six interest rate increases this year were made in an effort "to forestall a new round of higher inflation and inflation expectations".

Investors appear to have taken the Fed at its word about its promises to hold the line against inflation. This sentiment has caused the market to see-saw this month as investors alternated between optimism that full-scale inflation will not be allowed to occur and pessimism that another rate increase could cause more price instability.

Also affecting the market yesterday was the announcement late on Tuesday that Orange County, California, had filed for bankruptcy protection after posting a $1.5bn loss in its investment portfolio.

Two-year bonds remained relatively strong in spite of Mr Greenspan's comments, as investors pulled money from municipal bonds and put it into short-term Treasuries. Early in the morning falling prices in the muni bond market pushed yields up by about 15 basis points.

South Africa's debut global issue increased to $750m

INTERNATIONAL BONDS

By Graham Bowley

The strength of demand for South Africa's debut bond offering under the country's new government led to the issue being increased from $500m to $750m.

The long-awaited global offering of five-year bonds was launched yesterday. Dealers expect a price margin at the lower end of the launch spread of 193 to 198 basis points over US Treasury bonds when the exact pricing is announced today at 10am, New York time (3pm GMT).

Traders said more than half the offering was sold to investors in the US, with European investors accounting for about 35 per cent of the deal and Asian investors for about 15 per cent.

Asian interest was relatively weak largely because "Asian investors will want to see how the new credit performs before buying the new issue," one dealer said. "They will also be waiting to see whether South Africa decides to issue a yen-denominated bond in the future, which will be more attractive to Asian investors," he added.

Some investment fund managers said the bonds looked expensive at any price below 200 basis points, but thought the offering would nevertheless be successful.

Caja de Madrid, Spain's second largest savings institution and the country's highest rated bank credit, made its debut in the euromarket with a $200m offering of floating-rate notes.

The issue, which offered a coupon flat with three-month Libor, found early demand with European investment accounts, joint-lead manager Lehman Brothers said.

Some traders said the bonds were priced aggressively, but a Lehman official said the pricing was justified by the bank's Aa2/AA– credit rating.

Activity in the floating-rate note sector increased markedly yesterday with borrowers bringing two dollar and two D-Mark FRN issues to market.

In the dollar sector, Bristol Oaks, a special-purpose limited partnership backed by non-performing residential mortgages, launched a multi-tranche global issue of FRNs.

Around 75 per cent of the main tranche, a $275m offering of FRNs due July 1999, was placed mainly in Europe among corporate investors, banks and fund managers, said joint lead manager Citicorp.

ANZ Banking Group launched a $250m issue of three-year floating-rate notes via UBS offering a coupon of 10 basis points over three-month Libor.

In the D-Mark sector, BBDO Canada, part of Omnicom group, the US advertising company, issued DM200m of five-year floating-rate notes though Morgan Stanley.

The notes offered a coupon of 65 basis points over three-month Libor. This represented an attractive pick-up in yield compared with borrowers of a similar credit, such as a Citicorp's D-Mark issue currently trading at around 20 basis points over Libor, syndicate managers said.

The bonds found demand with UK fund managers, German commercial banks, retail investors in the Benelux countries, and with some high net worth individuals, lead manager Morgan Stanley said. The proceeds were not swapped, according to market sources.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Republic of South Africa	750	(a)#	(a)R	Dec.1999	0.50R	+193(7¾%-99)	Goldman/Swiss Bank Corp.
Bristol Oaks 1994-1(b)★‡	275	(b1)	(b1)	Jul.1999	undisc.	-	Citibank Intl./Citicorp Secs.
ANZ Banking Group(c)‡	250	(c1)	99.89R	Jan.1998	0.15R	-	UBS
Caymadrid International‡	200	(d)	99.78R	Dec.1997	0.125R	-	Lehman/ JP Morgan Secs.
STERLING							
General Electric Capital Corp.	100	8.25	99.874R	Dec.1996	0.125R	+25(10%-96)	Barclays de Zoete Wedd
D-MARKS							
BBDO Canada(e)‡	200	(e1)	99.48R	Jan.2000	0.45R	-	Morgan Stanley Frankfurt
Gilray Investments‡	150	(f,s)	99.96	Oct.2001	0.30	-	DG Bank
Banco Bozano Simonsen	100	10.00	100.80	Dec.1997	1.80	-	BHF Bank
AUSTRIAN SCHILLINGS							
National Bank of Hungary	750	9.625	100.40	Jan.2002	2.10	-	Creditanstalt/ RZB
SWISS FRANCS							
Vorarlberger Landes-& Hypo.	100	5.50	102.75	Jan.2000	2.00	-	Swiss Bank Corp.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ★Unlisted. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Priced today. b) Tranche A of $385m 5-tranche deal. Exptd av.life: 5.8 mths. b1) Indicated pricing: 1-mth Libor +50bp. c) Callable on coupon dates from Jan.97 at par. c1) 3-mth Libor +10bp. d) 3-mth Libor flat. e) Callable on coupon dates from Jan.97 at par. e1) 3-mth Libor +65bp. f) 6-mth Libor +30bp. s) Short 1st coupon.

Dual-currency £300m facility for Britannia BS

SYNDICATED LOANS

By Martin Brice

The Britannia Building Society has asked Westdeutsche Landesbank to arrange a £300m dual-currency revolving loan with multiple maturities.

The loan, which has a swingline option, has a commitment fee of 8 basis points over the London interbank offered rate (Libor) for the first four years and a day, rising to 8.25 basis points up to five years and 8.5 basis points for the sixth year.

The margin fee is 18 basis points for the first four years and a day, 20 basis points for year five and 22 basis points for year six. Participation fees are 5.5 basis points for £10m, 7 basis points for £15m and 8.5 basis points for £20m or more.

A presentation was made on Monday and banks have until December 19 to join the syndicate. A banker close to the deal said there had been a good initial response and the loan should be signed in early January.

● A $700m revolving credit for Svenska Cellulosa, one of Europe's largest paper companies, arranged by Chemical Bank and Handelsbanken Markets, has been signed.

The loan was oversubscribed in general syndication and increased from $500m. A total of 31 banks joined the syndicate.

● A £120m revolving credit for General Utilities, the holding company for the UK water company assets of Compagnie Générale des Eaux of France, has been increased to £126m after being oversubscribed in syndication. A total of nine banks joined the syndicate.

● A £237.5m revolving loan for MAI Finance, the international financial services and media company, has been signed. It was increased by £37.5m in syndication. Chemical Bank was the arranger and a further 12 banks joined the syndicate.

Brazil move for Paribas

By Angus Foster in São Paulo

Paribas Capital Markets has teamed up with one of Brazil's smaller banks in a co-operation agreement which shows continued foreign interest in Brazil as an emerging market.

Paribas has entered into the agreement with BBA Creditanstalt, a private sector investment bank in which Creditanstalt of Austria holds a third of the voting shares.

The two sides hope the arrangement will give Brazilian issuers greater access to international investors. They will also combine to market Brazilian fixed income and equity products to local and international investors.

Interest in Brazil has grown steadily this year, helped by a new currency, lower inflation, and the conclusion of a Brady-style debt renegotiation.

Foreign investment is at record levels, and there has been a steady stream of private sector companies launching issues on the Euromarkets or preparing American Depositary Receipts programmes.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.500	09/04	82.6300	−0.060	10.17	10.49	10.71
Belgium		7.750	10/04	96.7100	−0.060	8.24	8.25	8.42
Canada *		9.000	12/04	99.9000	−0.100	9.01	9.16	9.23
Denmark		7.000	12/04	89.2700	−0.030	8.65	8.61	9.04
France	BTAN	8.000	05/98	101.8100	−0.160	7.27	7.24	7.58
	OAT	7.500	04/05	96.9100	−0.170	7.94	7.89	8.28
Germany Bund		7.500	11/04	100.6800	−0.390	7.40	7.33	7.61
Italy		8.500	08/04	81.7400	+0.010	11.70†	11.67	11.79
Japan	No 119	4.800	06/99	103.4260	−0.010	3.91	3.96	4.10
	No 164	4.100	12/03	96.7780	+0.150	4.61	4.68	4.78
Netherlands		7.250	10/04	96.1600	−0.380	7.52	7.45	7.65
Spain		10.000	02/05	90.8700	−0.290	11.55	11.13	11.38
UK Gilts		6.000	08/99	90-17	+6/32	8.49	8.35	8.56
		6.750	11/04	87-31	+8/32	8.57	8.46	8.69
		9.000	10/08	103-31	+11/32	8.51	8.44	8.66
US Treasury *		7.875	11/04	100-16	−7/32	7.80	7.98	8.01
		7.500	11/24	95-13	−7/32	7.90	8.02	8.15
ECU (French Govt)		6.000	04/04	85.2100	−0.410	8.33	8.31	8.68

London closing, *New York mid-day. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by nonresidents). Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime		Treasury Bills and Bond Yields			
		One month	5.72	Two year	7.46
Prime rate	8½	Two month	5.88	Three year	7.61
Broker loan rate	6⅞	Three month	5.82	Five year	7.74
Fed.funds	5¾	Six month	6.42	10-year	7.81
Fed.funds at intervention	-	One year	6.95	30-year	7.94

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	113.14	112.98	-0.08	113.24	112.76	177,872	83,062
Mar	112.32	112.18	-0.08	112.42	112.00	34,096	70,892
Jun	111.46	111.32	-0.08	111.46	111.46	2	2,137

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jan	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Mar	PUTS Jun
110	-	2.73	-	0.10	0.64	1.39
111	1.46	2.05	-	0.27	0.88	-
112	0.71	1.41	-	0.60	1.30	-
113	0.29	0.92	-	1.16	-	-
114	0.09	0.58	-	-	-	-

Est. vol. total, Calls 15,946 Puts 13,291. Previous day's open int., Calls 151,804 Puts 133,876.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	91.26	90.97	-0.14	91.27	90.95	9269	26926
Mar	90.65	90.21	-0.35	90.68	90.07	114902	166494
Jun	-	89.59	-0.22	-	-	0	540

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
9000	0.55	0.80	1.11	1.23	0.34	0.69	0.90	1.64
9050	0.30	0.64	0.85	1.02	0.59	0.93	1.14	1.93
9100	0.16	0.44	0.63	0.83	0.94	1.23	1.42	2.24

Est. vol. total, Calls 9798 Puts 4474. Previous day's open int., Calls 145600 Puts 105508

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	100.25	100.19	+0.02	100.35	100.11	14115	48690
Jun	99.50	99.48	+0.44	99.50	99.50	20	0

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
10000	1.84	1.61	1.85	2.13
10050	1.59	1.40	1.90	2.42
10100	1.33	1.20	2.14	2.72

Est. vol. total, Calls 435 Puts 615. Previous day's open int., Calls 11512 Puts 10363

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF) December 5

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	87.37	87.10	-0.26	87.37	87.01	37,458	66,911
Mar	86.43	86.39	-0.31	86.51	86.32	2,377	9,457

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	101-24	102-12	+0-07	102-16	101-21	6096	24076
Mar	101-02	101-22	+0-07	101-27	100-30	98738	101167
Jun	-	100-22	+0-07	-	-	0	0

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
101	2-00	3-05	1-20	3-25
102	1-28	2-41	1-48	3-61
103	1-00	2-15	2-20	4-35

Est. vol. total, Calls 2290 Puts 6265. Previous day's open int., Calls 18939 Puts 27413

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	82.64	82.36	-0.28	82.64	82.22	4,439	5,148

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	100-05	99-10	-0-01	100-06	99-08	17,587	117,726
Mar	99-23	98-22	-1-01	99-23	98-19	424,131	310,450
Jun	99-02	98-09	-0-30	99-02	98-08	2,104	12,031

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	108.32			108.35	108.18	1629	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Dec 7	Day's change %	Tue Dec 6	Accrued interest	xd adj. ytd
1 Up to 5 years (24)	120.17	+0.04	120.12	2.48	9.83
2 5-15 years (22)	140.34	+0.02	140.31	2.47	11.49
3 Over 15 years (8)	157.07	+0.21	156.74	2.21	12.05
4 Irredeemables (6)	178.62	+0.45	177.81	1.27	13.71
5 All stocks (60)	137.51	+0.06	137.43	2.47	11.11
Index-linked					
6 Up to 5 years (2)	186.73	−0.07	186.85	0.92	5.07
7 Over 5 years (11)	173.57	−0.05	173.65	1.38	4.36
8 All stocks (13)	174.04	−0.05	174.14	1.33	4.41
Debentures and Loans					
9 Debs & Loans (77)	129.04	+0.12	128.88	2.00	10.80

	Low coupon yield Dec 7	Dec 6	Yr. ago	Medium coupon yield Dec 7	Dec 6	Yr. ago	High coupon yield Dec 7	Dec 6	Yr. ago
5 yrs	8.56	8.56	5.66	8.56	8.57	5.92	8.74	8.74	6.02
15 yrs	8.43	8.44	6.56	8.57	8.58	6.66	8.78	8.80	6.86
20 yrs	8.38	8.40	6.66	8.57	8.58	6.69	8.67	8.71	6.88
Irred.†	8.43	8.47	6.60						

	Inflation 5% Dec 7	Dec 6	Yr. ago	Inflation 10% Dec 7	Dec 6	Yr. ago
Up to 5 yrs	4.07	4.02	1.97	2.89	2.84	1.16
Over 5 yrs	3.90	3.89	3.03	3.71	3.71	2.88

5 year yield Dec 7	Dec 6	Yr. ago	15 year yield Dec 7	Dec 6	Yr. ago	25 year yield Dec 7	Dec 6	Yr. ago
9.52	9.53	7.28	9.46	9.47	7.69	9.41	9.42	7.63

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Dec 7	Dec 6	Dec 5	Dec 2	Dec 1	Yr ago	High*	Low*
Govt. Secs. (UK)	91.57	91.50	91.89	92.12	92.33	105.94	107.04	89.54
Fixed Interest	109.37	109.52	109.82	109.58	109.36	128.78	133.87	106.50

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Dec 6	Dec 5	Dec 2	Dec 1	Nov 30
Gilt Edged bargains	95.8	92.3	100.7	120.8	125.8
5-day average	107.1	116.8	127.4	136.4	141.2

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on December 7

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	88⅞	89⅜	-⅛	8.47
Alberta Province 7⅝ 98	1000	98⅝	98⅞	+⅛	8.04
Austria 8½ 00	400	101¾	102		8.06
Bank Ned Gemeenten 7 99	1000	96¼	96½		7.97
Bank of Tokyo 8⅜ 96	100	100¼	100⅜		8.11
Belgium 5½ 03	1000	82⅜	82¾	-⅛	8.38
BFCE 7¾ 97	150	99½	99⅞		7.97
British Gas 0 21	1500	10⅝	11		8.69
Canada 9 96	1000	101½	101¾		7.82
Cheung Kong Fin 5½ 98	500	88⅛	88⅝	+⅛	8.93
China 6½ 04	1000	84½	85	-⅛	9.22
Council Europe 8 98	100	100	100⅜		7.85
Credit Foncier 9½ 99	300	104⅞	105¼		8.07
Denmark 5⅝ 98	1000	94	94¼	+⅛	7.92
East Japan Railway 6⅝ 04	600	89	89¼	-⅛	8.37
ECSC 8¼ 96	193	100½	101		7.97
EEC 8¼ 96	100	100⅜	100⅝	-⅛	7.93
EIB 7¾ 96	250	99⅞	100¼	-⅛	7.79
EIB 9¼ 97	1000	103⅛	103⅝	+⅛	7.91
Elec de France 9 98	200	102⅝	102¾	+⅛	8.12
Eurofima 9¼ 98	100	101½	101⅞		7.90
Ex-Im Bank Japan 8 02	500	99⅛	99½		8.15
Export Dev Corp 9½ 98	150	104⅛	104½		8.10
Federal Natl Mort 7.40 04	1500	95⅛	95⅞	-⅛	8.23
Finland 6¾ 97	3000	97	97¼		8.08
Ford Motor Credit 6¼ 98	1500	94¾	95¼	+⅛	8.30
Gen Elec Capital 9⅜ 96	300	101⅞	102¼	-⅛	7.94
GMAC 9⅛ 96	200	101	101⅜		8.20
Ind Bk Japan Fin 7⅞ 97	200	98⅞	99½		8.39
Inter Amer Dev 7⅝ 96	200	99⅝	100		7.93
Italy 6⅞ 23	3500	78⅜	78⅝		9.19
Japan Dev Bk 8⅜ 01	580	100⅞	101		8.23
Kansai Elec Pwr 10 98	350	102½	102¾		7.88
Korea Elec Power 6⅜ 03	1350	85	85½	-⅛	9.02
LTCB Fin 8 97	200	99⅜	99⅞	+⅛	8.32
Matsushita Elec 7¼ 02	1000	94⅞	95¼	-⅛	8.33
Norway 7¼ 97	1000	98⅞	99⅛	+⅛	7.76
Ontario 7⅜ 03	3000	94⅛	94⅝		8.61
Oster Kontrollbank 8½ 01	200	101¼	101⅝	-⅛	8.22
Petro-Canada 7¼ 96	200	99⅛	99⅝	+⅛	7.97
Portugal 5¾ 03	1000	84	84¼	-⅛	8.52
Quebec Hydro 9⅜ 98	150	104¼	104⅝		8.38
Quebec Prov 9 98	200	101½	102		8.44
Sainsbury 9⅛ 96	150	101⅝	102⅛	-⅛	8.10
SAS 10 99	200	103¾	104⅛		8.87
SNCF 9½ 98	150	104⅛	104½		8.11
Spain 6½ 99	1500	93⅞	94		8.11
State Bk NSW 8½ 98	200	100½	100⅞		8.09
Sweden 6½ 03	2000	88⅞	89⅜	-⅛	8.46
Swedish Export 8⅞ 96	700	100⅝	100⅞	+⅛	7.81
Tokyo Elec Power 6⅛ 03	1000	86⅞	87⅛	-⅛	8.30
Tokyo Metropolis 8¼ 96	200	100⅝	101		7.87
Toyota Motor 5⅝ 98	1500	93⅛	93⅞		7.89
United Kingdom 7¼ 02	3000	95⅛	95⅜	-¼	8.10
World Bank 8⅜ 99	1500	102	102¼		8.02
World Bank 8¼ 97	1500	102⅜	102⅝		7.71
United Kingdom 7¼ 97	5500	100⅞	101⅛	-¼	8.77
Volkswagen Intl Fin 7 03	1000	94⅜	95	-⅛	7.93
World Bank 0 15	2000	20⅞	21⅛	-⅛	7.73
World Bank 5⅞ 03	3000	88⅛	88¼	-⅛	7.59
World Bank 8¾ 00	1250	109⅛	112⅜	-⅛	8.55
DEUTSCHE MARK STRAIGHTS					
Austria 6½ 24	2000	82⅞	83⅛	-⅛	8.04
Credit Foncier 7¼ 03	2000	97	97⅜	-¼	7.75
Denmark 6⅛ 98	2000	97⅞	98		6.84
Depfa Finance 6⅜ 03	1500	91½	91⅝	-⅛	7.74
Deutsche Bk Fin 7½ 03	2000	98½	99	-⅛	7.75
EEC 6½ 00	2500	97¼	97½	-¼	7.14
EIB 6¼ 00	1500	96	96⅜	-⅛	7.17
Finland 7½ 00	3000	100¼	100½	-⅛	7.43
Italy 7¼ 98	5000	100¼	100⅜	-⅛	7.15
LKB Baden-Wuertt 6½ 08	2250	89⅛	89⅜	-¼	7.91
Norway 6⅛ 98	1500	96⅜	96⅝	-¼	6.66
Ontario 6¼ 04	1500	89⅞	90	-⅜	7.87
Spain 7¼ 03	4000	97⅛	97¼	-⅛	7.73
Sweden 8 97	2500	102⅛	102⅜	-⅛	7.08
SWISS FRANC STRAIGHTS					
Asian Dev Bank 6 10	100	100⅛	100⅝	+⅛	5.99
Austria 4½ 00	1000	97	97¼	-¼	5.17
Council Europe 4⅞ 98	250	99⅛	99½	-⅛	5.05
Denmark 4¼ 99	1000	96½	96⅝	-⅛	5.08
EIB 6¾ 04	300	106½	107		5.88
Elec de France 7¼ 06	100	109			6.11
Finland 7¼ 99	300	107	107¼		5.55
Hyundai Motor Fin 8½ 97	100	106½	107½		5.88
Iceland 7⅜ 00	100	109¾	110½	+¼	6.50
Kobe 6⅜ 01	240	104	104½		5.63
Ontario 6¼ 03	400	102	102¼	+¼	5.93
Quebec Hydro 5 08	100	96½	97		5.35
SNCF 7 04	450	109	109½		5.77
World Bank 5 03	150	96¾	97⅜		5.48
World Bank 7 01	600	108	108½		5.45
YEN STRAIGHTS					
Belgium 5 99	75000	103⅛	103⅞		4.30
EIB 6⅝ 00	100000	110⅝	110⅞		4.32
Finland 6¾ 96	50000	104¾	105		2.66
Inter Amer Dev 7¼ 00	30000	113⅝	113⅞	+⅛	4.37
Italy 3½ 01	300000	92¾	92⅞		4.86
Japan Dev Bk 5 99	100000	103⅝	103¾		4.15
Japan Dev Bk 6½ 01	120000	111⅛	111¼	+⅛	4.55
Nippon Tel Tel 5⅞ 98	50000	104⅝	104⅞		3.18
Norway 5⅜ 97	150000	104⅛	104¼		3.38
SNCF 6¼ 00	30000	111	111¼		4.35
Spain 5¾ 02	125000	106¾	106⅞	+¼	4.53
Sweden 4⅝ 98	150000	102	102¼	-⅛	3.94
World Bank 5¼ 02	250000	104⅛	104¼	+⅛	4.63
OTHER STRAIGHTS					
Genfinance Lux 9⅛ 99 LFr	1000	104⅝	105⅝		7.81
IKB Deut Industbk 8½ 03 LFr	3000	100½	101⅛		8.47
World Bank 8 96 LFr	1000	100¼	101		7.75
ABN Amro 6⅝ 00 Fl	1000				
Bank Ned Gemeenten 7 03 Fl	1500				
AlbertaProvince 10⅝ 99 C$	500	102½	102⅞	-⅛	9.27
Bell Canada 10⅝ 99 C$	150	103⅞	104½	-¼	9.52
British Columbia 10 96 C$	500	102⅛	102⅜		8.35
EIB 10⅛ 98 C$	130	105	106	-⅛	8.28
Elec de France 9¾ 99 C$	275	102⅛	102⅝	-⅛	9.16
Gen Elec Capital 10 96 C$	300	101⅞	102⅜		8.55
KfW Int Fin 10 01 C$	400	102⅝	103⅛	-⅛	9.41
Nippon Tel Tel 10¼ 99 C$	200	103⅝	104⅛	-⅛	9.28
Ontario 8 03 C$	1500	91⅞	92¼		9.58
Ontario Hydro 10⅞ 99 C$	500	105⅛	105⅝	-¼	9.35
Oster Kontrollbank 10¼ 99 C$	150	103⅝	104⅛	-⅛	9.28
Quebec Prov 10½ 98 C$	200	103⅞	103¾	-⅛	9.44
Belgium 9⅛ 96 Ecu	1250	102⅛	102½		7.07
Council Europe 9 01 Ecu	1100	103	103⅜	-⅛	8.41
Credit Lyonnais 9 96 Ecu	125	101¾	102¼	-⅛	7.60
EIB 10 97 Ecu	1125	104⅝	105	-⅛	7.60
Ferro del Stat 10⅛ 98 Ecu	500	105⅛	105⅝		8.17
Italy 10¾ 00 Ecu	1000	108	108⅝	-⅛	8.56
Spain 9 96 Ecu	1000	102⅜	102½		7.17
United Kingdom 9⅛ 01 Ecu	2750	103⅞	104⅛	-¼	8.29
AIDC 10 99 A$	100	98⅝	99	-⅛	10.36
Comm Bk Australia 13¼ 99 A$	100	111	111½	-⅛	10.67
EIB 7⅝ 99 A$	350	89¼	89½	+⅛	9.79
NSW Treasury Zero 0 20 A$	1000	7½	7¾	-1⅛	10.49
R & I Bank 7⅝ 03 A$	125	83⅝	84	-1	10.77
State Bk NSW 9 02 A$	300	91⅜	91¾	-⅛	10.57
Sth Aust Govt Fin 9 02 A$	150	91¼	91¾	-¼	10.70
Unilever Australia 12 98 A$	150	103⅞	104	-½	10.68
Western Aust Treas 7⅞ 98 A$	100	92⅞	92⅝	-⅛	10.33
Abbey Natl Treasury 8 03 £	1000	92¼	92⅝		9.39
Alliance Leics 11¾ 97 £	100	105⅜	105¾	-⅛	8.76
British Land 8⅞ 23 £	150	89⅜	89⅞		10.25
Denmark 6¾ 98 £	800	93¾	94	+⅛	8.77
EIB 10 97 £	637	103⅛	103⅝	+⅛	8.39
Halifax 10⅜ 97 £	100	103⅝	104	+⅛	8.49
Hanson 10⅜ 97 £	500	103⅜	103⅝	+⅛	8.97
HSBC Holdings 11.69 02 £	153	109½	110		9.84
Italy 10½ 14 £	400	107½	107⅝	+⅛	9.62
Japan Dev Bk 7 00 £	200	91⅞	92¼	+⅛	8.89
Land Secs 9½ 07 £	200	96¼	96¾	-½	9.73
Ontario 11⅛ 01 £	100	108	108⅜		9.35
Powergen 8⅞ 03 £	250	97	97⅜	+⅛	9.40
Severn Trent 11½ 99 £	150	109⅜	109¾	+⅛	9.15
Tokyo Elec Power 11 01 £	150	108¼	108⅝		9.29
Abbey National 0 96 NZ$	100				
TCNZ Fin 9¼ 02 NZ$	75				
Credit Local 6 01 FFr	7000	90	90¼	-¼	7.98
Elec de France 8¾ 22 FFr	3000	101⅛	101⅝	-⅛	8.57
SNCF 9¼ 97 FFr	4000	104⅛	104⅜	-⅛	7.24

FLOATING RATE NOTES	Issued	Bid	Offer	C.cpn
Abbey Natl Treasury -1/16 99	1000	99.44	99.52	6.3750
Banco Roma 0 99	200	99.91	100.03	5.2812
Belgium 1/16 97 DM	500	100.13	100.23	5.1250
BFCE -0.02 98	350	99.78	99.90	6.2300
Britannia 0.10 98 £	150	99.94	100.04	6.1000
Canada -⅛ 99	2000	99.29	99.36	5.5925
CCCE 0 06 Ecu	200	99.08	99.29	5.7500
Credit Lyonnais 1/16 00	300	97.38	97.89	6.3125
Denmark -⅛ 96	1000	99.56	99.66	5.0625
Dresdner Finance 1/16 98 DM	1000	99.97	100.07	5.2188
Ferro del Stat 0.10 97	420	99.94	100.09	6.7250
Finland 0 97	1000	99.94	100.02	5.3750
Ill Bank Intl ¼ 99	500	100.01	100.11	6.1875
Italy ¼ 98	2000	100.09	100.16	5.5000
LKB Baden-Wuert Fin -⅛ 98	1000	99.38	99.47	5.8750
Lloyds Bank Perp S 0.10	600	83.53	84.53	5.4125
Malaysia 1/16 05	650	99.20	99.44	5.9375
New Zealand -⅛ 99	1000	99.68	99.76	5.4453
Ontario 0 99	2000	99.60	99.68	5.6125
Renfe 0 98	500	99.40	99.56	6.0000
Societe Generale 0 98	300	99.51	99.62	5.3750
Staatsbank Berlin -0.05 98 DM	6000	99.87	100.01	5.2800
State Bk Victoria 0.05 99	125	99.78	99.99	5.1125
Sweden 0 98	1500	99.87	99.92	6.0625
Sweden -⅛ 01	2000	99.76	99.93	5.6875
United Kingdom -⅛ 96	4000	99.79	99.84	5.0000

CONVERTIBLE BONDS	Issued	Conv. Price	Bid	Offer	Prem.
Browning-Ferris 6¾ 05	400	52½	89	90¼	+72.26
Chubb Capital 6 98	250	86	99¾	100⅛	+17.36
Gold Kalgoorlie 7½ 00	65	1.0554	102	103⅝	+38.26
Hanson 9½ 06 £	500	2.5875	105	105⅞	+12.33
Hanson America 2.39 01	1000		71¾	72½	
Hong Kong Land 4 01	410	31.05	73¾	74¾	-38.09
Land Secs 6¾ 02 £	84	8.72	94⅛	95½	+11.46
Lasmo 7¾ 05 £	90	5.64	81⅞	83⅛	
Mitsui Bank 2⅝ 03	200	2332.6	92⅛	94⅛	+8.96
Mount Isa Fin 6½ 97	100	2.283	95⅜	96⅜	+21.02
Natl Power 6¼ 08 £	250	4.33	117	118	+0.92
Ogden 6 02	85	39.077	81¼	82½	+62.57
Pennzoil 4¾ 03	500	58.8097	86½	87½	+17.96
Sumitomo Bank 3⅛ 04	300	3606.9	74⅛	75¼	+14.13
Sun Alliance 7¼ 08 £	155	3.9	92¼	93¼	+17.57
Tesco Capital 9 05 £	200	2.61	112¼	113⅛	+16.67
Texas Instruments 2¾ 02	300	82⅞	97	98⅛	+5.60

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or −	1994 High	1994 Low
Shorts* (Lives up to Five Years)						
Treas 12pc 1995	11.91	6.08	100¾	—	107[illegible]	100¾
Exch 3pc Gas 1990-95	3.04	5.93	98¾	—	103⅝	97¾
10¼pc 1995	10.04	6.84	102⅛	−1/32	107[illegible]	102⅛
Treas 12¾pc 1995‡‡	12.11	6.83	105[illegible]	−1/32	113⅝	105[illegible]
14pc 1996	13.06	7.04	107[illegible]	−1/32	117[illegible]	107[illegible]
15¼pc 1996‡‡	13.82	7.38	110[illegible]	−1/32	121[illegible]	110[illegible]
Exch 13¼pc 1996‡‡	12.29	7.40	107[illegible]	−1/32	117[illegible]	107[illegible]
Conversion 10pc 1996	9.64	7.24	103[illegible]	—	112[illegible]	103[illegible]
Treas Cnv 7pc 1997‡‡	7.16	7.81	97[illegible]	+1/16	100⅝	96⅝
Treas 13¼pc 1997‡‡	12.05	7.40	109[illegible]	—	121[illegible]	109⅝
Exch 10½pc 1997	10.02	8.02	104[illegible]	+1/16	114[illegible]	104½
Treas 8¾pc 1997‡‡	8.64	8.20	101¼	+1/16	110[illegible]	100[illegible]
Exch 15pc 1997	12.86	8.34	116[illegible]	−1/16	131[illegible]	116[illegible]
9¾pc 1998	9.42	8.40	103½	+1/16	114[illegible]	102[illegible]
Treas 7¼pc 1998‡‡	7.49	8.36	96[illegible]	+1/16	106[illegible]	95⅜
Treas 6¾pc 1995-98‡‡	7.08	8.35	95[illegible]	+1/16	102	93[illegible]
14pc 1998-1	12.08	8.51	116¼	+1/16	131[illegible]	115[illegible]
Treas 15½pc 1998‡‡	12.68	8.44	122[illegible]	—	140[illegible]	122
Exch 12pc 1998	10.77	8.52	111⅜	+1/16	125[illegible]	110[illegible]
Treas 9½pc 1999‡‡	9.20	8.48	103[illegible]	—	116[illegible]	101[illegible]
Exch 12¼pc 1999	10.84	8.56	112[illegible]	−1/16	128[illegible]	111[illegible]
Treas 10½pc 1999	9.81	8.52	107[illegible]	+1/16	121[illegible]	105[illegible]
Treas 6pc 1999‡‡	6.64	8.48	90[illegible]	—	101[illegible]	89[illegible]
Five to Fifteen Years						
Conversion 10¼pc 1999	9.63	8.58	106[illegible]	—	121[illegible]	104[illegible]
Treas Flg Rate 1999	-	-	99[illegible]xd	+1/64	100[illegible]	99½
9pc 2000	9.20	8.46	97[illegible]	−1/16	98⅝	96
Conv 9pc 2000‡‡	8.84	8.58	101[illegible]	−1/16	116[illegible]	99⅞
Treas 13pc 2000	10.86	8.70	119[illegible]	−1/16	136[illegible]	118[illegible]
10pc 2001	9.41	8.70	105[illegible]	−1/16	122[illegible]	103¼
7pc 2001‡‡	7.64	8.59	91[illegible]	−1/16	106[illegible]	89¼
9¾pc 2002	[illegible]	8.70	105[illegible]	—	123[illegible]	102[illegible]
8pc 2003‡‡	8.53	8.63	93xd	−1/16	113[illegible]	92¾
10pc 2003	9.30	8.70	107[illegible]	−1/16	127[illegible]	104½
Treas 11¾pc 2001-4	10.28	8.85	112⅜	−1/16	129[illegible]	109[illegible]
Funding 3½pc 1999-4	4.74	7.33	73¾	−¼	86[illegible]	69¼
Conversion 9½pc 2004	9.02	8.64	105⅛	−1/16	125[illegible]	101[illegible]
Treas 6¾pc 2004‡‡	7.70	8.56	87[illegible]	−1/16	105¼	84[illegible]
8½pc 2005	8.65	8.54	99[illegible]	—	100[illegible]	97
Conv 9½pc 2005	8.98	8.60	105[illegible]	+1/16	125½	102⅛
Treas 12½pc 2003-5	10.28	8.91	121[illegible]	—	143[illegible]	118⅝
7¾pc 2006‡‡	8.24	8.53	94[illegible]	+1/16	112[illegible]	90⅝
8pc 2002-6‡‡	8.37	8.58	95[illegible]	+1/16	111¾	91[illegible]
Treas 11¾pc 2003-7	10.13	8.93	115[illegible]	+1/16	136[illegible]	112¾
Treas 8½pc 2007‡‡	8.65	8.54	98[illegible]	+1/16	119[illegible]	95[illegible]
13½pc 2004-8	10.52	8.91	128[illegible]	—	151[illegible]	124[illegible]
Treas 9pc 2008‡‡	8.67	8.50	103¾	+1/16	124[illegible]	99[illegible]
Treas 8pc 2009	8.35	8.49	95[illegible]	+¼	115[illegible]	91[illegible]
Over Fifteen Years						
Treas 6 1/4pc 2010	7.87	8.34	81[illegible]	+1/16	98[illegible]	77[illegible]
Conv 9pc Ln 2011‡‡	8.60	8.45	104⅝xd	+1/16	125[illegible]	100[illegible]
Treas 9pc 2012‡‡	8.58	8.44	104[illegible]	+⅛	127[illegible]	100⅝
Treas 5½pc 2008-12‡‡	7.38	8.30	74[illegible]	−1/16	93⅞	71¼
Treas 8pc 2013‡‡	8.32	8.38	96[illegible]	+¼	117[illegible]	92
7¾pc 2012-15‡‡	8.29	8.38	93[illegible]	—	114¾	89[illegible]
Treas 8¾pc 2017‡‡	8.44	8.38	103⅝	+¼	126¾	99[illegible]
Exch 12pc 2013-17	9.14	8.59	131[illegible]xd	+1/16	159½	126[illegible]
Undated						
Consols 4pc	8.62	-	46[illegible]	+1/16	59¾	44[illegible]
War Loan 3½pc‡‡	8.36	-	41[illegible]	+1/16	54[illegible]	39[illegible]
Conv 3½pc '61 Aft	6.00	-	58[illegible]	—	71	55⅞
Treas 3pc '66 Aft	8.42	-	35⅝	—	44⅝	33[illegible]
Consols 2½pc	8.42	-	29[illegible]xd	+1/32	38½	28[illegible]
Treas. 2½pc	8.57	-	29[illegible]	—	37⅞	27[illegible]

Index-Linked (b)	Notes	Yield (1)	Yield (2)	Price £	+ or −	1994 High	1994 Low
2pc '96	(67.9)	2.74	2.16	200¾	−⅛	203⅝	197[illegible]
4⅝pc '98‡‡	(135.6)	3.09	3.35	109¾	−⅛	113[illegible]	105[illegible]
2½pc '01	(78.3)	3.45	3.85	166	−1/16	178⅝	163½
2½pc '03	(78.8)	3.54	3.87	162	−1/16	173⅝	159[illegible]
4⅜pc '04‡‡	(135.6)	3.57	3.88	108[illegible]	−⅛	118⅝	107⅛
2pc '06	(69.5)	3.61	3.86	168[illegible]	−⅛	184[illegible]	165[illegible]
2½pc '09	(78.8)	3.67	3.88	152[illegible]	−1/16	168[illegible]	148⅝
2½pc '11	(74.6)	3.70	3.89	157[illegible]	−1/16	175⅝	154⅝
2½pc '13	(89.2)	3.72	3.89	129⅝	−1/16	146⅝	126⅝
2½pc '16	(81.6)	3.74	3.90	137¾	−1/16	157[illegible]	134⅝
2½pc '20	(83.0)	3.77	3.91	131[illegible]	−⅛	152[illegible]	129½
2½pc '24‡‡	(97.7)	3.78	3.89	109⅝	−⅛	128[illegible]	106⅝
4⅛pc '30‡‡	(135.1)	3.79	3.92	108⅝	−⅛	128[illegible]	105⅞

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for March 1994: 142.5 and for October 1994: 145.2.

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or −	1994 High	1994 Low
Asian Dev 10¼pc 2009	9.14	8.87	112⅛	—	129⅝	107[illegible]
B'ham 11½pc 2012	9.66	9.41	119	—	142	115
Ireland Cap 9½pc '10	8.76	-	97	—	116½	93½
9pc Cap 1996	8.98	-	100¼	—	103½	99¾
13pc '97-2	12.09	-	107½	—	115⅜	106
Hydro Quebec 15pc 2011	10.44	9.78	143⅝	—	169[illegible]	137[illegible]
Leeds 13½pc 2006	10.51	-	128½	—	149¼	125
Liverpool 3½pc Irred	9.33	-	37½	—	44¾	33¼
LCC 3pc '20 Aft	9.09	-	33	—	40½	29¾
Manchester 11½pc 2007	9.96	9.50	115½	—	136¼	111¾
Met. Wtr. 3pc 'B'	4.27	8.02	70¼	—	78	66½
N'wide Anglia 3⅞pc 2021	-	4.51	132¾	—	150¼	129⅝
4⅛pc IL 2024	-	4.48	127¾	—	145¼	123⅞
Utd Mex States 16½pc 2008	11.91	-	139½	—	159½	134⅞

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

Strong growth at Holiday Inn but brewing side declines 10%

Bass advances 9% to £552m

By Roderick Oram, Consumer Industries Editor

Brisk profits growth at Holiday Inn, the global hotel chain, allowed Bass to report a 9 per cent rise in full-year pre-tax profits despite a further fall in beer profits and sluggish performances from pubs and leisure.

Profits for the 53 weeks to September 30 of £552m against £508m also benefited from an extra week of trading. Turnover for the year was flat at £4.45bn.

Current trading was encouraging, however, said Mr Ian Prosser, chairman. UK consumer spending was picking up in areas such as pub retailing and soft drinks, although brewing was "just grinding along". The continental economy was showing some signs of improvement.

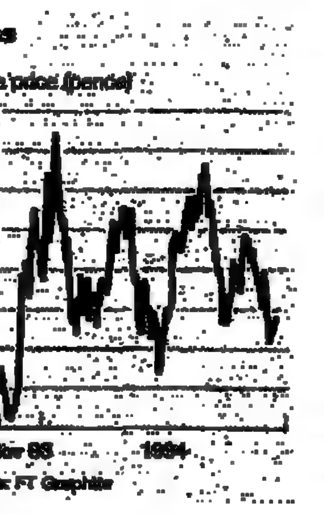
Overall, the City was encouraged by the results and a few analysts raised their forecasts slightly for the current year.

The shares, which had been weak in recent weeks on fears of mixed news from the group, rose 15p to 519p.

Holiday Inn operating profits rose by 18 per cent to £151m. US hotels, contributing $203m (£124m), enjoyed increased occupancy rates and a modest improvement in room rates. Holiday Inn's best region was Europe, the Middle East and Africa with profits up 57 per cent to $22m thanks to aggressive promotion and UK growth.

Brewing was Bass's only setback. Profits fell by 10 per cent to £140m (£156m). The company stressed, however, that the latest period included an extra £12m in duties and £16m in restructuring charges. The underlying fall in profits was about 3 per cent, one analyst calculated.

Beer volume was up 1 per cent with Bass maintaining its position as the largest UK brewer with some 23 per cent of the market. However, analysts believe volume was down 1 per cent, adjusting for the extra week's trading. Bass reported strong growth in its national brands such as Carling and Grolsch lagers and a 6 per cent rise in cask ales.



Pub profits rose 7 per cent to £220m.

The number of managed pubs fell by 10 per cent but beer volume per pub was up 3 per cent and food takings rose 5 per cent in the Toby chain and 20 per cent elsewhere. Profits from leased pubs rose 3 per cent.

Bass's leisure division reported a £2m rise in profits to £74m. Coral was the best performer, benefiting from a new format in some of its betting shops. Gala, the bingo chain, was ahead only £1m at £40m but will benefit this year from a trend towards much larger clubs.

A final dividend of 14.5p is proposed for a total of 21.1p, up 6.6 per cent.

Earnings per share were 40.1p, up 10.5 per cent from 36.3p.

● COMMENT

Bass deserves full credit for progress at Holiday Inn which will likely continue for the foreseeable future. However, it is underperforming its competitors in UK brewing and pub retailing and it is finding it hard to grow turnover in a low inflation environment. A slow improvement in consumer spending will help it achieve pre-tax profits this year of about £580m for earnings of 42.3p. This puts the shares on a realistic discount of 8 per cent to the market multiple. Other stocks exposed to consumer spending or restructuring of the UK brewing industry offer better earnings growth than Bass.

Cautious hand holds controls

Raymond Snoddy on Carlton's plans after a period of change

Mr Michael Green, the chairman and chief executive of Carlton Communications, is noted for his caution. In the pioneer days of satellite television in the early 1980s Mr Green was enormously interested, but kept his cheque book firmly shut and instead made money by selling editing time, studio space and other back-up facilities to those who rushed in.

Mr Green is the first to admit that he is no innovator, but someone who watches carefully for the moment when innovation is about to result in commercial products.

Yesterday Carlton announced a 51 per cent increase in pre-tax profit to £190m. The figure was boosted by an eight-month contribution from the acquisition of Central Independent Television, but was still ahead of the most optimistic analysts' forecasts.

However, in a small piece of corporate innovation, Mr Green accompanied the results for the year to September with the sort of detailed information on strategy and performance usually reserved for annual reports. It amounted almost to a conservative media manifesto for the foreseeable future of Carlton Communications.

Carlton's strategy was not to plunge down "super-highways" with high-risk ventures dependent upon a particular view of how multimedia markets will evolve.

The aim would be to stick to "sound commercial judgments about what consumers wanted" and to areas where Carlton could bring added value.

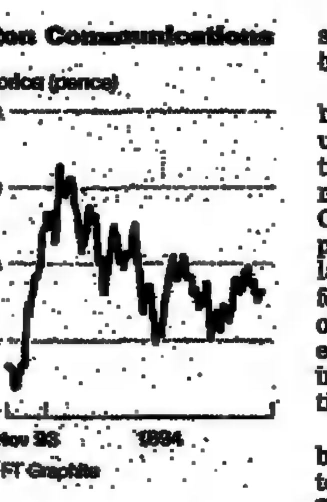
"ITV holds the dominant share of the UK commercial market and will retain that position by continuing to invest in new domestic channels," said Mr Green.

The rise of cable and satellite would fragment the television audience and as a result ITV would remain the channel which would deliver the consistently largest audience for advertisers.

Yet, since April, Carlton has been turning out CD-Roms to address the educational and games market from an optical media unit within its Technicolor video cassette production plant at Camarillo, California.

At the same time, Carlton, the world's largest duplicator of video tapes, expressed the belief that video cassettes have a long future as a means of delivering entertainment to the home.

Not only had retail sales of videos doubled over the last five years, but they are forecast to double again over the next ten. Snow White, released by Disney at the end of October, was believed by the industry to have sold 10m copies in the first week. Next year the Lion King, one of the most successful cinema releases ever, was expected to be released on video.



Mr Tom Hall, media analyst at stockbrokers SJ Warburg, said yesterday that the City increasingly realised that the video recorder was not going to become obsolete overnight and that network television would remain strong.

With strong advertising revenue and growth likely in its professional video and sound products division, Warburg believes Carlton will make between £238m and £240m in 1994-95. After that that the crystal ball begins to fade, but some analysts are already starting to talk about a possible £270m to £280m for 1996.

Mr Hall, and many others, believe there is a degree of uncertainty about what direction Carlton will take in the medium term. Although Mr Green argues that after a period of rapid change and large acquisitions it is perfectly proper to concentrate on organic growth and managing existing assets, it is difficult to imagine that Carlton's acquisition days are over.

In the past year, its centre of balance has shifted heavily towards television as Carlton Television produced its first full-year since its launch and Central kicked in with its contribution.

As a result, operational profit in broadcast television jumped from £8.3m to £71.6m. Despite the large growth in earnings from UK broadcasting, more than half of Carlton's turnover and operating profit came from outside Britain. North America contributed operating profits of £89.7m and the rest of the world added only £10.5m.

As Mr Green looks cautiously forward to the multimedia future, he emphasised yesterday that the one near certainty is that "irrespective of how they are delivered, original, quality programmes are the key to attracting audiences and advertisers."

Downturn at upholstery arm behind Airsprung's decline

By Roland Adburgham, Wales and West Correspondent

Profits at Airsprung Furniture Group have again been checked by a poor result in its upholstery division. Its pre-tax profits in the half-year to end-September slipped from £2.5m to £2.33m.

The Wiltshire-based group's three other divisions all achieved significant advances, with total sales rising by 10.7 per cent to £36.6m (£33.1m).

Mr Michael Coppel, joint chairman, described it as "a good result, bearing in mind the current trading environment". The interim dividend is being maintained at 1.7p, covered 3.5 times by earnings per share of 5.89p (6.41p).

Airsprung is the second biggest UK manufacturer of beds, and this division saw a profits rise of 6.4 per cent on sales up 7.7 per cent. Profits and sales of the show-wood division increased by more than a third. The fillings division improved profits by 6.2 per cent on sales up nearly 10 per cent.

In upholstery, there was static turnover and an adverse swing of £420,000 took the division into a small loss.

Mr John Pierce, chief executive, said one problem had been a new range which had not been thoroughly costed and had effectively sold at a loss. But the company was pleased with the way the division was pulling round and he expected it to return to profit by the end of the year.

Mr Pierce said Airsprung's margins had suffered from substantial increases "with yet more to come" in the costs of imported raw materials, especially of timber, wire and fabrics.

The group would have no option but to pass on the costs in higher prices early in the new year. "I think all companies in the furniture industry face this pressure and can't absorb the cost increases further."

St James Beach cuts deficit to £0.05m

St James Beach Hotels, which operates hotels in Barbados, cut interim pre-tax losses from £253,000to £51,000Turnover for the half-year to September 30, traditionally the low season, was 12 per cent ahead at £3.5mcompared with £3.1m

The result included an exceptional cost of £119,000relating to severance payments.

Mr Ray Horneychairman, said the figures were "satisfactory", taking into account the closure of two hotels for redevelopment, and below the budgeted level.

Losses per share at the group, which obtained a full listing in April, were reduced to 0.58p(2.15p).

The interim dividend of 1.25pis in line with the prospectus forecast and shareholders will be offered shares in lieu of cash.

Time and Security helps Blick to 30% expansion

By Peter Pearse

Shares in Blick rose 12p to 430p yesterday as the communications and time products company announced a 30 per cent increase in pre-tax profits for the year to September 30.

Included in the results is a 10½-month contribution from Time and Security, bought in October 1993 from Cable & Wireless for £55.8m.

Group profits expanded to a record £12.3m (£9.41m) pre-tax on turnover up 56 per cent to £51.3m (£32.8m).

The turnover included £12m from the acquisition, which also added £65.4m of gross-contracted rental to make the total £161.4m (£87.8m).

Mr Ian Scott-Gall, group managing director, said he was "delighted with the organic growth" and said that three years of the expanded group's cashflow would pay off the acquisition costs, which included about £20m in new equity.

He had maintained that when the recovery came, the group's profits would rise as demand increased and companies started to spend more freely.

"It was as if a dam burst about a year ago," Mr Scott-Gall said. Blick capitalised on this as the salesforce was divided into "hunters", to seek out customers and sell new contracts, and "farmers", who service them.

Having paid £3.2m earlier this month for TR Services, a company with similar interests in South Africa, Mr Scott-Gall said the group would look towards Europe for expansion.

Mr Alan Elliot, chairman and holder of 30.25 per cent of the group's shares, said he expected to announce an acquisition in 1995.

Group operating profits expanded 47 per cent to £13m (£8.89m) after which there was a net interest charge of £782,000 (credit £517,000). At the acquisition gearing was 167 per cent. That fell to 77 per cent at the year-end.

Profits in the time division rose 74 per cent to £6.16m on turnover of £20m (£13.3m). The communications side lifted profits 29 per cent to £6.88m on turnover up 61 per cent at £31.3m.

Earnings emerged at 29.7p (26.28p) and a final dividend of 8p makes a total of 11.5p, up 13 per cent.

Overseas growth behind 20% advance at Courts

By Peter Pearse

Courts, the home furnishings retailer, achieved 20 per cent rise in both pre-tax profits and turnover in the six months to September 30, fuelled by overseas sales sharply up by 30 per cent.

The shares edged ahead 3p to 798p.

At group level, profits grew to £3.27m (£2.72m) pre-tax and turnover to £124.6m (£103.7m). Operating profits of £8.06m (£6.89m) were boosted by a £663,000 exceptional gain from the disposal of shares in the Mauritian subsidiary as a result of its rights issue. Interest charges were up at £3.51m (£3.31m) as borrowings grew to £55.3m (£43.5m). Gearing, including deferred profit, rose from 35.5 to 38.4 per cent.

The transfer to the deferred profit reserve almost trebled to £1.94m (£770,000) as a result of the increased overseas sales. Mr Bruce Cohen, chief executive, said the size of the rise in the transfer was because of a big increase in the group's in-house credit business. The amount comprises the interest element and the gross profits on goods sold.

The deferred profit reserves now total nearly £50m, which Mr Cohen said would flow into future profits over a maximum of three years. If the credit business was not handled by Courts itself, Mr Cohen said, the group would be ungeared.

Turnover in the UK increased 9 per cent. Here, expansion was concentrated on the Superstore format. Courts' 32 Superstores account for about 70 per cent of sales, with the 58 high-street shops making up the balance. So far, only the south is represented, but Mr Cohen expects to go national in the next two to three years.

Overseas sales grew so strongly on the back of expansion in south-east Asia, particularly Singapore and Malaysia. There are now 120 stores in 13 countries; 14 were opened in the first half and six have been opened since, with three more due soon.

Earnings expanded to 6.84p (3.94p) and the interim dividend is held at 2p. While the pay-out is not a foreign income dividend, last year's final was and this year's final might be.

United Drug advances 28% to I£4.4m

United Drug, the Dublin-listed pharmaceuticals group, increased pre-tax profits by 28 per cent in the year to September 30.

The I£4.41m (£4.3m) result, up from I£3.44m, was struck on turnover 24 per cent ahead at I£168.8m, compared with I£136.5m.

Acquisitions contributed I£112,000 (I£1m) to operating profits. Net interest fell from I£888,000 to I£285,000.

Earnings per share, fully diluted, came out at 17.02p (16.54p) with a recommended final dividend of 5.15p, giving a total for the year of 7.5p (7p).

Dunedin Ent net assets rise

The net asset value per share of the Dunedin Enterprise Investment Trust increased by 6.7 per cent from 180p at April 30 to 192p at the October 31 interim stage.

The improvement, which takes account of the £5.5m warrant issue, compared with an 8.9 per cent fall in the benchmark FT-SE SmallCap ex Inv Trusts Index.

Net revenue for the six months amounted to £888,829 (£516,248). Earnings came out at 195p (277p) per share and the interim dividend is again 1.5p.

Property sale profits help Artesian Ests to £0.24m

Artesian Estates, the assured tenancy investment company, reported interim pre-tax profits of £241,000 compared with £24,000 last time. The result included profits totalling £221,000 on the sale of properties.

The addition of high-yielding properties to its portfolio helped lift rental income for the six months to September 30 from £140,000 to £182,000. Admin expenses almost doubled to £108,000. Earnings per share were 4.5p, compared with 0.3p.

Net asset value per share stood at 104.6p (88p) at the period end. The company has since added £13.5m to its asset base through acquisitions and obtained a full stock exchange listing.

PUBLIC WORKS LOAN BOARD RATES

Effective December 6

	Quota loans*					
	"Lower" quota rates			"Higher" quota rates		
Years	EPI†	A††	maturity§	EPI†	A††	maturity§
1	-	-	6¾	-	-	6¾
Over 1 up to 2	6¾	7	8	7	7¼	8⅛
Over 2 up to 3	7⅝	7¾	8½	7¾	7⅞	8⅝
Over 3 up to 4	8⅛	8⅛	8⅝	8¼	8⅜	8¾
Over 4 up to 5	8⅜	8½	8¾	8½	8⅝	8⅞
Over 5 up to 6	8½	8⅝	8¾	8⅝	8¾	9
Over 6 up to 7	8⅝	8⅝	8⅞	8¾	8¾	9
Over 7 up to 8	8⅝	8¾	8⅞	8¾	8⅞	9⅛
Over 8 up to 9	8¾	8¾	8⅞	8⅞	8⅞	9⅛
Over 9 up to 10	8¾	8¾	8⅞	8⅞	9	9⅛
Over 10 up to 15	8⅞	8⅞	8⅞	9⅛	9⅛	9⅛
Over 15 up to 25	8⅞	[illegible]	9⅛	9⅛	9⅛	9
Over 25	8¾	8⅞	8⅞	9⅛	9	9

*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher in each case than quota loans. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

RTZ completes Colowyo deal at double the price

By Kenneth Gooding, Mining Correspondent

RTZ Corporation, the mining company, has finally completed the acquisition, first announced in April, of most of the Colowyo Coal Company, which has a mine in Colorado, at a cost of $25.5m (£15.5m) cash, compared with the $13m originally intended.

The seller, WR Grace, the US speciality chemicals and health care group, now receives $218.3m instead of $233m.

RTZ said the deal remained a good one as Colowyo produced 4m tonnes a year of low sulphur, high-energy coal with about 180m tonnes of mineable reserves. The operations complemented those RTZ acquired last year in the Powder River Basin, which made it the fifth largest coal producer in the US.

RTZ has not bought an interest in some long-term coal contracts, involving 60m tonnes of Colowyo reserves. Instead these have been used to secure non-recourse finance, which has given Grace $192.8m.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Airsprung Furn'	int	1.7	Jan 27	1.7	-	4.8
Amberley §	int	0.25	Feb 21	nil	-	1
Avon Rubber	fin	11.5	Feb 24	11.5	16.5	16.5
Bass	fin	14.5	Feb 13	14.35	21.1	19.8
Blick	fin	8	Apr 5	6.9	11.5	10.2
Border TV §	int	1.9	Mar 10	1.6	-	4
BTP	int	3.75	Feb 13	3.45	-	10
Carlton Comms	fin	12.5	Apr 6	11.3	20.65	18.7
Countryside Prop	fin	2.8	Apr 7	2.7	4.21	4.11
Courts	int	2	Apr 7	2	-	7
Crown Eyeglass	int	3.5	Jan 23	3	-	9.5
Dunedin Ent	int	1.5	Jan 27	1.5	-	4.2
Hicking Pent'	int	1.8†	Jan 18	1.55	-	4.6
Hozelock	fin	5.05	Feb 15	-	7.35	-
Mansfield Brew'	int	1.5	Jan 25	1.25	-	4.4
New Zealand IT	fin	1.5‡	Mar 3	0.6	2.5	2.1
St James Beach	int	1.25†	Jan 27	-	-	-
Sth Wales Elec	int	11	Feb 24	7.5	-	25.6
United Drug	fin	5.15♣	-	4.8	7.5	7

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡Payable as fid. ♣Irish pence.

BASE LENDING RATES

	%
Adam & Company	5.75
Allied Trust Bank	5.75
AIB Bank	6.25
●Henry Ansbacher	6.25
Bank of Baroda	6.25
Banco Bilbao Vizcaya	6.25
Bank of Cyprus	5.75
Bank of Ireland	6.25
Bank of India	6.25
Bank of Scotland	6.25
Barclays Bank	6.25
Brit Bk of Mid East	6.25
●Brown Shipley & Co Ltd	6.25
CL Bank Nederland	6.25
Citibank NA	6.25
Clydesdale Bank	6.25
The Co-operative Bank	6.25
Coutts & Co	6.25
Credit Lyonnais	6.25
Cyprus Popular Bank	6.25
Duncan Lawrie	5.75
Exeter Bank Limited	7.25
Financial & Gen Bank	6.5
●Robert Fleming & Co	6.25
Girobank	6.25
●Guinness Mahon	6.25
Habib Bank AG Zurich	5.75
●Hambros Bank	6.25
Heritable & Gen Inv Bk	6.25
●Hill Samuel	6.25
C. Hoare & Co	5.75
Hongkong & Shanghai	6.25
Julian Hodge Bank	6.25
●Leopold Joseph & Sons	6.25
Lloyds Bank	6.25
Meghraj Bank Ltd	6.25
Midland Bank	6.25
* Mount Banking	6
NatWestminster	6.25
●Rea Brothers	5.75
* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	8
Royal Bk of Scotland	6.25
●Smith & Williamson Secs	6.25
TSB	6.25
●United Bk of Kuwait	6.25
Unity Trust Bank Plc	5.75
Western Trust	5.75
Whiteaway Laidlaw	6.25
Yorkshire Bank	6.25

● Members of London Investment Banking Association
* In administration

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Cost reductions help pre-tax profits advance 21% to £53.6m

Swalec lifts dividend by 47%

By Michael Smith

South Wales Electricity yesterday saw its shares rise 9p to 780p as it announced a 47 per cent rise in its interim dividend.

The increase, on the back of a 21 per cent rise in pre-tax profits from £44.4m to £53.6m, was partly the result of a rebalancing of dividends between the two halves of the year.

The dividend increase was also assisted by the company's recent purchase of 7 per cent of its shares.

The company said profits next year would be likely to fall following the introduction of the new regulatory regime next April. It said it hoped to keep the post-tax earnings reduction to within 10 per cent of this year's total.

Swalec's pre-tax result for the six months to September 30 was achieved on turnover of £289.6m (£274.7m).

Earnings per share advanced to 39.2p (31p) and the dividend is 11p (7.5p).

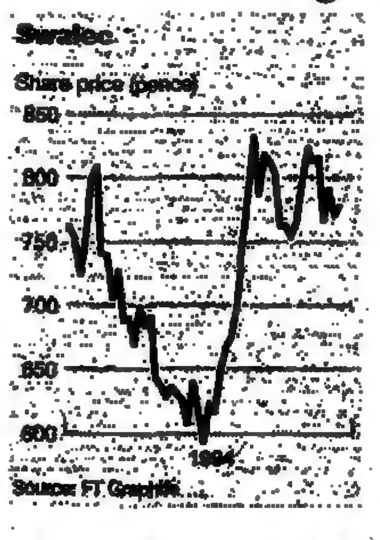
Mr David Myring, finance director, said the underlying dividend rise was between 15 and 20 per cent. The buy-back enabled the company to lift dividends by between 2 and 7 percentage points.

The rest of the increase was the result of the rebalancing. Mr Myring said the company expected the interim dividend to represent about 35 per cent of the year's total.

Part of the profits improvement resulted from a 6 per cent reduction in real costs during the period. Mr Andrew Walker, chief executive, said about 100 staff would go during the year.

The company was also benefiting from the renegotiation of pay and conditions which has introduced a single table bargaining system and flexible working.

Mr Walker said there was more scope for cost cutting than the company had previously thought.



Swalec has increased provisions by £8.5m since its March year end to £33.2m, with the restructuring element rising from £4.8m to £8.9m.

The company said it intended to continue buying shares up to the 10 per cent limit for which it had authority, depending on market circumstances.

Mr Myring said the company would be comfortable with gearing of up to 40 per cent.

● **COMMENT**

Swalec's rating in the City has traditionally suffered, in part because of its geographic circumstances – its heavily rural area is expensive to service – and because of a perception that its cost cutting is not as rigorous as that of other recs. It can do little about its geography but it is showing progress in the management of its business. The core business costs are coming down more quickly than expected and the company is getting to grips with its other businesses. It has already divested itself of retailing, something other recs are considering; contracting profits are a healthy £700,000 (£200,000) and CableTel has some promise for the future. The shares are trading on a prospective yield of 5.1 per cent, suggesting that there could be room for further share price rises.

Hicking Pentecost buys Dewey Waters

Hicking Pentecost, the textile and industrial products group, is to acquire Dewey Waters, the Bristol water storage systems business, for £2.7m cash.

The deal follows April's receivership of DW's parent, Bimec Industries, which bought the operation for around £11m in August 1991.

Hicking Pentecost bought Barbour Campbell, the industrial thread manufacturer and a former Hanson offshoot, for £5.33m in May. The Cardiff-based business helped its parent increase half-year operating profit, before exceptional costs, to £2.48m (£2.04m).

An exceptional item of £357,000 to reduce costs has been charged against profits. Pre-tax profits, after exceptionals, in the half year to September 30 were £2.35m (£1.98m).

The company also announced its intention to keep hunting for manufacturing-related businesses, particularly those where operating efficiency can be improved, to add to its portfolio.

It also pledged continuing organic growth.

"In the last six months we have continued to improve profits at our existing businesses and made excellent progress with our most recent acquisition, Barbour Campbell...This acquisition has doubled our size and spread the group's activities across new markets," said Mr Tudor Davies, chief executive.

Earnings per share after exceptional items were 8.4p (8.8p). The interim dividend rises to 1.8p (1.55p).

RM dismisses £38m proposal from Misys

By Christopher Price

Research Machines, the educational computer and software supplier which is due to come to the market later this month, yesterday rejected an approach from Misys, the computing services group.

Misys is offering 235p a share, subject to pre-conditions on the RM board, which would value the group at £38m. RM shares, which are due to be priced in the next few days, are likely to be valued at about 170p apiece.

However, Mr John Leighfield, chairman of RM, dismissed the Misys offer. "This proposal does not value the company at anywhere near its true worth. If we had wanted a trade sale, we would have sought out a company which fits our culture and which would maintain our leading position in our market. Misys does not fit these criteria.

"We are determined to press ahead with our strategy to improve our value as an independent company."

Following the rejection, Misys said it would be proposing an alternative offer to SG Warburg, RM's advisers, immediately. Sources at Misys indicated this would take the form of a partial offer.

A company statement said: "The RM board has chosen to rebuff our approach without any discussions with Misys, and RM's announcement omitted to disclose that the offer proposal was a minimum price, was in cash, and that the pre-conditions were waivable.

"The board of Misys believes its proposal represents a clear premium for RM shareholders, compared to what might be achieved in the placing."

Mr Leighfield said that he did not believe the Misys approach would affect trading in the shares once dealing started, nor that the company would make a hostile bid.

However, Misys sources said it was an option the company would consider. Following the flotation, in which 25 per cent of the company is on offer, management and employees will speak for about 36 per cent of RM shares.

Mr Strone Macpherson, deputy chairman of Misys, recently resigned as a non-executive director of RM.

Acquisitions help Amberley rise to £0.5m

Bolstered by acquisitions, Amberley Group, the USM-quoted building services company, reported a healthy advance in pre-tax profits from £21,000 to £552,000 for the six months to end-September.

The pre-tax outcome was struck after interest receivable of £21,000 (£1,000 payable) and came from turnover up from £2.14m to £5.31m, of which £1m came from acquisitions.

Lawrence Industries, acquired in September last year, contributed its first full six months' profits, and Metacol, bought in June this year, made a near three-month contribution.

Earnings emerged at 1.16p (0.21p) per share and an interim dividend of 0.25p (nil) is declared.

Bowater sniffs profit in £66m perfume pump deal

By Peggy Hollinger

Bowater, the printing, packaging and coatings company, yesterday announced the £66m cash acquisition of a French pumps manufacturer.

The company is buying SOFAB – the world's leading manufacturer of the miniature pumps and valves used in luxury perfumes – from Bic, the ballpoint pens maker.

The acquisition comes just a month after Bowater announced it was leaving the paper business with a deal to sell its Australian tissue and other interests for £158m.

After last month's sale and yesterday's purchase are completed, Bowater is expected to have gearing of about 33 per cent.

Mr David Lyon, Bowater's chief executive, said SOFAB would complement the existing haircare pumps business. It would be managed as a separate business within Bowater's beautypackaging operations.

He said it also offered substantial growth opportunities, with the market for SOFAB's products growing at an estimated 20 per cent a year.

Mr Lyon said the fragrance market was growing rapidly because customers were buying perfume in smaller packages and using more varieties for different occasions.

Last year, SOFAB's achieved operating profits of FFr43.8m (£5.2m) on sales of FFr171m.

Net assets before debt were FFr113m. Mr Lyon said the purchase was not expected to be dilutive.

Anglo United reduces loss to £3m

By Peggy Hollinger

Anglo United, the loss-making fuels distributor and a preferred bidder for the smokeless fuels arm of British Coal, has halved its interim deficit through cost-cutting and lower interest charges.

The group, which has had two debt restructurings and a £25m rescue rights issue since 1991, is also in talks with its bankers to seek support for a further refinancing and cash call to fund the Coal Products bid.

The acquisition is crucial to the future of Anglo United, which faces a mature and declining market in its main Coalite smokeless fuels business.

Mr Harold Cottam, chairman, said he hoped the negotiations would "clear the way to achieve a successful conclusion." Anglo is believed to have offered between £60m and £80m for Coal Products.

Meanwhile, Anglo announced a reduction in pre-tax losses for the six months to September 30 from £6.5m to £3.2m. Sales of £90.2m compared with £236m previously, which included £135m from discontinued activities. The change reflected the £30m disposal in March of Charrington Fuels.

Mr Cottam said that both the uncertainty surrounding the privatisation of British Coal and falling demand for domestic solid fuel had hit sales.

In spite of these difficulties, operating profits from the core manufacture and distribution of solid fuels and chemicals rose by 28 per cent to £4.6m.

Cost-cutting in the Coalite business and increased market share in fuel distribution and chemicals helped to buoy profits.

Anglo United's debt fell £26m to £102m, following the Charrington sale.

The loss per share halved from 0.8p to 0.4p. There was no dividend.

Countryside Properties rises 74% and plans expansion

By Simon London
Property Correspondent

Countryside Properties, one of the largest housebuilders in the south of England, reported a 74 per cent rise in annual pre-tax profits to £8.2m, against £4.74m, and further expansion of its housing activities.

The company completed 1,506 new homes in the year to September 30, up from 1,295. Mr Alan Cherry, chairman, said he expected the company to build 2,400 homes this year.

The government's decision to cut grants available to housing associations will reduce the amount of social housing work available. Last year, two-thirds of Countryside's homes were built under contract for housing associations and others.

However, Mr Cherry said that the company would make up any shortfall from projects which attracted urban regeneration funding. Orders for contract housebuilding were more than £100m, against £85m.

Countryside has opened offices in Surrey and Bristol during the year and plans to increase its speculative housebuilding programme from 550 to 800 homes this year.

Turnover rose from £91.7m to £149.1m, including £4.37m from the commercial property investment portfolio, which was sold for £60m in June.

Sales of residential property increased from £76.9m to £130.1m. About 40 per cent of house sales did not contribute to profit because they were built on land acquired in the late 1980s at prices higher than today's values. This year, the proportion will fall to about 12 per cent as old land is used up, leading to higher margins.

Turnover from commercial property development rose from £9.1m to £14.6m.

Last week, Countryside announced that the Post Office had agreed to pre-let a 190,000 sq ft processing centre at Chelmsford, Essex. The development has been sold forward to PosTel, the post and telecommunications pension fund.

Earnings per share were 8.4p (5.9p) and the proposed final dividend is raised by 0.1p to 2.8p, making a total for the year of 4.21p (4.11p).

Taylor Woodrow buy-back

By Simon London

Taylor Woodrow yesterday became the first company in the property and construction sector to buy back its own shares.

The company said it would acquire up to 10 per cent of its share capital, or 42m shares, at prices up to net asset value – 128.8p per share at June 30.

Through its agents Hoare Govett and James Capel, Taylor Woodrow yesterday bought about 28m shares in the market, or 7 per cent of its capital.

The shares closed up 5p at 124p.

The company said the programme would result in a more efficient capital structure and enhanced earnings per share.

Mr Colin Parsons, chairman, added: "The repurchase programme will not restrict the expansion plans within the company's strategic business plan. Taylor Woodrow's own assets represent a first class investment opportunity at the discounted price, which cannot be matched externally."

Taylor Woodrow has made a number of land acquisitions this year, including purchasing the assets of Heron Homes for £30m in March and deals in the US and Australia.

At the end of the last financial year, gearing was about 16 per cent. The maximum expenditure under the repurchase programme is £54m.

Annual review of FT indices

Rothmans International, Vendôme Luxury Group and newly floated TeleWest Communications are among seven companies which will be included in the FT-SE Mid 250 index from Monday December 19 following a quarterly review of constituents yesterday by the the FT-SE A UK Indices committee, which oversees the FT-SE A set of UK market indices.

In a separate annual review of index constituents, the committee also approved the inclusion of 127 new companies in the FT-SE SmallCap index, with 81 existing companies being removed, resulting in an additional 46 companies. These changes will be made after close of business on December 30.

In the Rothmans and Vendôme case, the committee had to consider the weighting in the indices of the two companies, each of which have a complex corporate structure, with one UK company share and one foreign company share traded in "stapled units".

The two companies were formed in October last year through the reorganisation of the tobacco and luxury goods group, but they were initially excluded from the FT-SE indices. Dunhill, their previous incarnation, had been included.

Last April the FT-SE A steering committee approved a new rule on the treatment of stapled units making Rothmans and Vendôme eligible for the indices, but said the weighting of the two would be determined in December, after publication of the two companies' audited accounts.

Yesterday the UK indices committee included Rothmans with a weighting of 30 per cent and Vendome with a weighting of 10 per cent.

* Quarterly Review:
The quarterly review produced no changes in the constituents of the FT-SE 100 index.

The review of the FT-SE Mid 250 and FT-SE Actuaries 350 produced the following changes, to be made on Monday, december 19: (rankings by capitalisation shown in brackets):

For inclusion: Telewest Communications [illegible]; Rothmans International [illegible]; [illegible] Group [illegible]; Vendôme Luxury Group [illegible], Perpetual [illegible]; British Biotech [illegible]; Cobham [illegible].

For exclusion: Asprey [illegible]; AMEC [illegible]; Bardon Group [illegible] [illegible]

[illegible]

COMPANY NEWS: UK

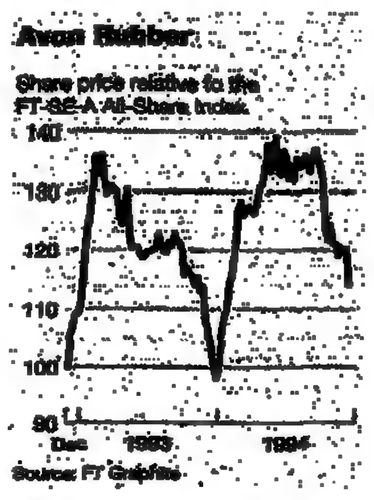
Lossmaking operations, since sold, behind decline

Avon Rubber falls to £8.55m

By Roland Adburgham, Wales and West Correspondent

Lossmaking operations, which have since been sold, reduced Avon Rubber's annual pre-tax profits to £8.55m, from a restated £11m. But on continuing activities, the group achieved a 16 per cent rise from £11.6m to £13.5m.

Turnover on continuing activities in the 12 months to October 1 increased 7.6 per cent to 272m (£253m). Mr Stephen Willcox, chief executive designate, said: "I think it is a year when we've done quite a lot of sorting out and are now well-positioned to go forward."



Disappointment at the figures caused the share price to be marked down 26p to 494p.

The final dividend of 11.5p maintains the total at 16.5p. Basic earnings per share were 14.2p (30p) and on continuing businesses 32p (32.4p).

During the summer, Avon Rubber disposed of its inflatables business, which accounted for about 5 per cent of group sales and had lost £3m in three years. A 30 per cent stake in Motorway Tyres and Accessories was sold to the majority holder, SP Tyres.

Mr Willcox said the group, which employs 5,700 people, was now shaped into the divisions it wanted, consisting of one division in North America and three in Europe.

"We are beginning to see a strengthening in all our major markets." The acquisition in October last year of a two-thirds holding in Avon-Rubena in the Czech Republic had performed better than expected.

Stephen Willcox: seeing a strengthening in main markets

Automotive components, the main division, increased operating profits by 79 per cent to £6.98m, on sales up 23 per cent to £122.6m.

Capital expenditure of £20m included investment in Avon-Clevite in Europe and Cadillac in the US, which were reported to be progressing strongly.

A net cash outflow this year had been expected and gearing rose from 23.8 per cent to 42.2 per cent. Mr John Harper, finance director, said the rise in base rates would not have a significant effect.

Prudential plans changes to meet policy sales rules

By Alison Smith

Prudential Corporation yesterday became the latest life insurer to respond to new rules on giving more information to customers buying policies, by promising to introduce changes next year.

The new requirements on those selling investment, pension and life policies to inform customers about the policies and costs of selling, are causing significant changes in products, payment methods for sales agents and advisers, and brochures across the retail financial services sector.

Prudential, the UK's largest life insurer, has already made several changes to its product range and the costs of selling, but is planning more changes, including discontinuing a handful of unpopular policies.

In particular, the balance of commission paid to the direct sales force for pension policies is expected to shift towards renewal payments and away from the heavy emphasis on initial commission.

The commission structure for savings products was similarly changed when the Prudence savings account was launched in the summer.

Regular premium pensions policies sold by independent financial advisers already give them the option of spreading commission over the lifetime of the policy rather than from early premiums.

In both cases, Prudential is bearing more of the cost of the initial commission than occurs with many traditional products.

This means that the values available if a policy lapses early should be higher than they would otherwise be.

The moves are also intended to give sales agents and advisers more incentive to ensure policies do not lapse.

Mr Jim Sutcliffe, managing director of Prudential's home service division, said the group's worst lapse rates, where 25 to 30 per cent of policies were surrendered in the first couple of years, were in pensions policies sold to young people.

However, other pensions policies had the lowest lapse rates of just 2 per cent in the first two years.

Mr Keith Bedell-Pearce, chief executive of Prudential financial services, said the cost of meeting the compulsory elements of the new disclosure regime came to about £3m each for the direct-sales operation and the services for independent financial advisers.

NEWS DIGEST

Border TV 6% ahead to £849,000

Border Television, the Carlisle-based independent television company, lifted pre-tax profits by 6 per cent, from £802,000 to £849,000, in the half year ended October 31.

The result, on turnover up 15 per cent at £5.59m (£4.85m), was after a £46,000 loss from an associated company and a £297,000 exceptional charge relating to start-up costs of Century Radio and Scot-FM.

Mr Melvyn Bragg, chairman, said that radio operations were expected to contribute to profits in mid-1995.

Earnings slipped to 6.1p (6.7p) and the interim dividend is raised from 1.6p to 1.9p. The company trades on the USM.

Kingfisher buy

The French stock exchange has approved a £20.5m offer by Kingfisher subsidiary Financiere Darty for the remaining shares in Etablissements Darty & Fils. The deal involves the purchase of 266,142 shares at FFr650 (£77.02).

Anglesey Mining

A new management at Anglesey Mining intends to re-establish it as a viable mining company by acquiring assets at the exploration, development and production stages.

Last month Imperial Metals Corporation cut its holding from 41.2 per cent to 11.9 per cent with Mid Ocean Investments, a private Bermuda-based company, taking 29.3 per cent and taking over C$3.89m (£1.8m) of debt.

The board is seeking to restructure its debt with 67 per cent of Anglesey's current liabilities now due to Mid Ocean.

Anglesey reported losses of £42,557 (£168,701) for the six months to September 30. Losses per share were 0.1p (0.4p).

Yorks Electricity

Yorkshire Electricity will receive SKr200m (£17m) compensation, as a result of the decision by Stockholm City Council to terminate the agreement for Yorkshire to buy 17.3 per cent of Stockholm Energi.

John Tams growth

Increased demand boosted interim results of John Tams Group, but an exceptional reorganisation charge of £190,000 this time meant pre-tax profits of the USM-quoted china and earthenware maker showed a 12 per cent advance from £501,000 to £563,000.

Turnover for the six months to September 30 grew 5.3 per cent to £12.2m (£11.6m), of which exports account for 52 per cent.

Earnings per share rose to 1.5p (1.42p) and an unchanged interim dividend of 1.6p has been declared.

AB Engineering

Good progress in its engineering businesses helped Associated British Engineering to achieve a sharp increase in first-half profits, despite continuing difficult conditions in the catering equipment market.

Pre-tax profits of £315,000 (£106,000) were scored on sales of £29.7m (£25.3m) in the six months to September 30. Earnings came to 0.08p (0.02p).

Archimedes Inv Tst

Net asset value per capital share of Archimedes Investment Trust stood at 656.39p at the October 31 year-end, against 704.07p six months earlier and 676.54p at the previous year end.

Net revenue for the 12 months amounted to £352,523 (£310,345) for earnings per income share of 28.77p (25.33p).

A second interim dividend of 17.5p (17p) is declared in lieu of a final, making 26.5p (26p).

New Zealand Invest

New Zealand Investment Trust had a net asset value of 191.72p per share at October 31, against 214.63p a year earlier.

Net revenue, after tax of £126,235 (£122,523), amounted to £261,269 (£174,106) for earnings per share of 2.61p (1.74p). A final foreign income dividend of 1.5p (0.6p) is proposed, for a total of 2.5p (2.1p).

Innovative Technologies to float with £25m price tag

By Tim Burt

Innovative Technologies Group, the manufacturer of polymers and seaweed-based products for the healthcare industry, said it aimed to raise £4.46m from its forthcoming flotation, valuing the company at £25m.

Funds raised from the placing at 120p per share will be used to repay £1.3m of borrowings and expand manufacturing facilities for products ranging from wound dressings to gloves and textiles.

The company already supplies a number of healthcare companies, including subsidiaries of AP Möller of Denmark and Hafslund Nycomed of Norway, and said it was close to signing potentially lucrative licensing deals with other partners.

Unlike existing healthcare products on the market, said Mr Keith Gilding, managing director, its dressings were longer-lasting and could enhance patient care.

The value of the global market for such products has been estimated at $3.4bn (£2.07bn).

Following the placing, handled by Allied Provincial Securities, dealings are expected to start on December 15.

صورة من الاصل

Chairman retires with BTP ahead at £18.1m

By David Wighton

BTP, the speciality chemicals group, reported a 39 per cent rise in interim pre-tax profits from £13m to £18.1m as it announced the retirement of chairman Mr Frank Buckley after 27 years with the company.

Mr Buckley steps down at a time when the group is riding high following last year's £107m acquisition of most of MTM's assets. On the back of the deal BTP's earnings per share rose from 7.04p to 9p in the six months to September 30, on turnover 23 per cent higher at £161m, compared with £131m last time.

Mr Stephen Hannam, who moves up from managing director to chief executive, said there was more to come. "What we got was a fantastic set of assets which will be the base for organic growth for many years," he said.

Along with other speciality chemicals companies BTP has seen a sharp increase in raw material costs over the last few months. But Mr Hannam said it would be pushing through price rises ranging from "5 per cent to well into double figures" next month and was confident that it would pas on all its increased costs by the end of the financial year.

Demand in most of BTP's main markets is improving. Its adhesives and textile coatings division, which was hardest hit by the recession, saw operating profits recover to £3.43m (£2.79m) while performance chemicals rose to £4.23m (£3.29m). Boosted by the MTM deal, biocides and fine chemicals jumped to £8.62m (£4.43m), while the industrial division held at £3.34m (£3.41m) after last year's strong growth.

The dividend rises 8.7 per cent from 3.45p to 3.75p.

The shares firmed 1p to 283p, valuing the company at £382m. When Mr Buckley, now 66, joined what was then British Tar Products in 1967 it was valued at just £137,000.

Mr Buckley became chairman and chief executive in 1978 and dropped the chief executive role only last year. He will receive £398,000 for the rest of his two-year rolling contract and has been invited to become honorary president.

The new non-executive chairman is Mr John Ketteley, 55, who has been non-executive deputy chairman since 1979.

Hozelock at £7m after interest charges fall

Increased demand for hoses and sprinklers, courtesy of the UK's hot summer, helped lift pre-tax profits at Hozelock, the garden equipment manufacturer, by 85 per cent in its first year since coming to the market.

The result for the 53 weeks to October 1 of £7m (£3.8m), was struck on turnover 20 per cent ahead at £38.6m (£32.3m).

Operating profits rose 37 per cent to £7m (£5.1m). Interest payable fell to £222,000; last year's figure of £1.35m included charges relating to the 1990 management buy-out structure.

Operating margins increased from 15.9 per cent to 18.2 per cent as a result of productivity improvements and tighter costs control.

Capital expenditure over the year reached £10m, most of which related to the construction of Midpoint Park, the company's new £7.9m factory in Birmingham, which began operating in July.

City analysts reconsidered their profits forecasts to around £6.75m in August after Hozelock's trading statement announced strong summer sales following a disappointing spring. "We have come in on the right side [of the forecasts]," said Mr David Codling, chief executive.

Strong progress was recorded in the watering products and new aquatics division, which specialises in decorative ponds. Around 40 per cent of the UK's watering products are estimated to be in hose storage systems. However, with only 28 per cent household penetration compared to 48 per cent in France and 64 per cent in Germany, Hozelock believes there is room for development. Year on year growth in watering products was 36 per cent.

Mr Codling said his primary goal was further progress in Europe, while development in Australasia and Africa remained a long-term aim.

Earnings per share were 20.2p (12.7p). A final dividend of 5.05p is recommended, giving a total of 7.35p for the year.

Exports help Mansfield Brewery increase 17%

By David Blackwell

Increased beer exports to the former Soviet Union helped Mansfield Brewery raise its lower margin take-home volumes by 39 per cent in the first half.

The group reported pre-tax profits 17 per cent ahead for the six months to October 1, from £7.47m to £8.76m. Total turnover rose by almost 11 per cent from £60m to £66.5m.

Earnings per share increased from 8.04p to 9.36p, and the interim dividend is raised from 1.25p to 1.5p.

The shares closed yesterday at 236p, up 6p.

Mr Paul Handley, finance director, said the group had begun exporting beer to the former Soviet Union 12 months ago, but it had "taken off in the last six months".

The beer, sold in plastic bottles, is designed specifically for the market, and features new brands – Monarch and Majesty.

However, the group warned that the Russian beer market tended to be quieter in the winter.

In the UK, take-home beer volumes were ahead just 4 per cent, and margins were static. On-trade beer and cider volumes were 2.3 per cent higher.

Mr Handley said that in a recessionary environment the group had pushed up profits in all sectors, driven by both organic growth and acquisitions. The results had been helped to some extent by the warm summer weather.

Like-for-like volumes were static at the managed houses, but profits were 6 per cent up, reflecting higher margins and increased food sales.

The group acquired 10 new houses in the half, and expects another 10 to be on stream by Christmas.

It now owns 485 houses in Nottinghamshire and Humberside, and has started to expand southwards into Northamptonshire.

Interest payable fell from £2.45m to £2.17m, and gearing edged ahead to 44.9 per cent.

Mr Handley said yesterday's rise in interest rates would not affect the group before the end of the financial year.

Sir David White, chairman, with an aardvark from the TV advertising campaign

ICI to make £45m from sale of SA chemicals

By Daniel Green

ICI is to make a £45m exceptional fourth quarter pre-tax gain on the sale yesterday of its remaining stake in AECI, the South African chemicals company.

The sale of 20.6m shares raised about £80m and leaves as ICI's main interest in South Africa a 51 per cent stake in AECI Explosives.

About two thirds of the shares were bought by South African institutions and the remaining investment came from the US and Europe.

The sale followed a prolonged and steep rise in the AECI share price from less than R8 to almost R35 since early 1993.

ICI held 38 per cent of the company until October 1993, when it announced an exchange of part of its stake for a direct 51 per cent holding in AECI's explosives division.

Apart from the explosives business, which employs about 5,000, ICI's South African businesses are:

- ICI South Africa, a wholly owned subsidiary selling imported products made by ICI and other companies. The business employs 100 people
- Tioxide Southern Africa, with 330 staff, is 60 per cent owned by ICI subsidiary Tioxide. The rest belongs to AECI.

ICI will keep strong links with AECI, besides those through the explosive and titanium dioxide businesses. Mr Alan Pedder, Tioxide's chief executive, who represented ICI on the AECI board, will continue as a non-executive director of AECI.

The sale was conducted by SG Warburg over a two-day period. It is the latest in a series of modest transactions this year by ICI, which is seeking to divest its self of businesses and minority holdings deemed not to be central.

Mr Martin Evans of Hoare Govett said the sale of the remaining stake in AECI was not a surprise. "It is part of the long-running reorganisation that has been carried out before and especially since the demerger of [pharmaceuticals company] Zeneca."

Management plans Ferranti Technologies rescue with £3m bid

By Ian Hamilton Fazey, Northern Correspondent

Ferranti Technologies, which makes fuses, gyroscopes and artificial horizons for the UK and US defence industries, is expected to be rescued from receivership this week by a management buy-out.

The components company, which was affected by the fraud that wrecked most of the Ferranti group, has been in receivership since December last year. It operates from the old Cairo mill in Oldham, Greater Manchester, employing 308, after shedding nearly 500 jobs to survive.

The buy-out has been organised by the Manchester office of Murray Johnstone, the Glasgow-based finance house, and led by Mr Trevor Tuckley, headhunted this summer by Arthur Andersen, the receiver, to restructure the Ferranti business.

The price is believed to be about £3m, of which £1m is being deferred for two years. Murray Johnstone is providing £1m of equity and the Royal Bank of Scotland a £1m term loan and a £2.8m overdraft for working capital.

Mr Gary Tipper of Murray Johnstone said yesterday that Ferranti Technologies had been able to continue because of support from customers and creditors, led by GEC, the UK Ministry of Defence, the US Department of Defense, and British Aerospace.

It has a £17m order book, mainly fuses for mines and warheads, gyroscopes for aircraft and missiles, cockpit equipment and computerised military electronic systems.

This business is expected to continue for several years but Mr Tuckley and Mr Peter Davies, operations director, and Mr David Platt, commercial director, hope to develop some civil applications.

These include sensing devices that would automatically brake a car too close to the vehicle in front, or engage safety brakes on trains if something is detected on the line. The company already does similar work for the London Underground.

Shaftesbury advances to £2.35m

Shaftesbury, the specialist property company, reported pre-tax profits up from £1.01m to £2.35m for the year ended September 30.

The improvement was achieved on operating income up from £5.87m to £6.25m and was struck after an exceptional debit of £433,000 on termination of an interest rate swap agreement and a reduced interest charge of £2.87m (£4.12m).

The group's investment properties have been valued at £77.1m, showing a net surplus of £4.67m, while shareholders' funds grew by £6.99m to £48.7m at the year end – equivalent to net assets of 100p (86p) per share.

After a tax refund of £465,000 (£49,000 charge), net profits advanced to £2.82m (£963,000). Earnings were 8p (3.5p) and there is a dividend of 1p (nil).

Crown Eyeglass up

Crown Eyeglass, the spectacles maker, lifted pre-tax profits from £308,000 to £336,000 in the six months to September 30.

Turnover grew from £2.54m to £3.45m. Earnings came out at 14p (12.7p) and the interim dividend is raised to 3.5p (3p).

Hill Hire float delayed again

Market conditions forced Hill Hire, the commercial vehicle hire company, to postpone its share placing yesterday for the second successive day.

Renegotiation between the vendor, Birkby, and institutions devalued the market capitalisation by an estimated 2 per cent.

Birkby, the business property manager, had hoped the float of 60 per cent of its equity in Hill Hire would value the company at more than £26m. If the placing goes ahead today as planned, it is likely to be valued at about £25.5m.

Hambros, the adviser, was still bullish about the float despite the delay. Mr David Ewart-James, a director, said: "It's a very difficult market out there, but it shows you can still do good issues in it."

The float follows Birkby's March acquisition of In Shops, the retail space rental business. Hill Hire became a non-core operation. "With the success we have had we can stand on our own," said Mr Jeffrey Chapman, Hill Hire chief executive. "We won't be competing for capital in the group."

Hill Hire operates 2,050 vehicles at seven commercial vehicle rental sites in the M62 corridor, including five under its Ember arm. It aims to open a Manchester branch in April 1995 and is confident of expanding its fleet. Pre-tax profits in the half year to September were £900,000.

Trading in the shares is now expected to begin on December 29.

Datrontech placing postponed

The planned flotation of Datrontech, a supplier and distributor of computer memory and other PC components, has been postponed because of adverse market conditions, the magazine Electronics Times reported yesterday.

The placing was expected to value the company at £50m and raise about £5m.

The Aldershot-based firm confirmed the delay but said the float would eventually go ahead. It is believed the share placing will take place in the first half of 1995.

The company, formed in 1987 by Mr Steve King, managing and marketing director, and Mr Ian Boyle, sales director, reported pre-tax profits in the half year to June of £2.1m (£1.4m). Memory products accounted for 88 per cent of last year's £48m turnover.

Datrontech has a close relationship with Kingston Technology of the US, whose products account for about 40 per cent of its sales.

COMMODITIES AND AGRICULTURE

EU eases 'mad cow' curbs on British beef

By Deborah Hargreaves

The European Commission's veterinary committee yesterday lifted restrictions on some beef exports from the UK which were introduced in July because of fears about bovine spongiform encephalopathy or "mad cow disease". The move was welcomed by farmers as it eased controls on the most lucrative section of the export market for prime beef.

The vets decided producers no longer needed to certify that animals born in the UK after January 1 1992 had not been in herds affected by BSE if they wanted to export carcass meat.

Rules introduced in July at the insistence of the Germans forced producers to go on a time-consuming search for the history of the animals they were selling to ensure they had not been in herds affected by BSE in the previous six years.

Since 1992 the incidence of BSE in the UK has declined to a rate naturally occurring in most European Union countries, so animals born after that date are unlikely to be affected.

"The change in the rules is a considerable alleviation of a bureaucratic burden for many farmers and should be a welcome boost for the beef export market," said an official at the National Farmers' Union.

The easing of restrictions affects around a third of carcass beef exports. And as the meat comes from prime beef cattle it is the highest-value part of the market. Most beef exported to EU countries is from old cows, which will still be subject to the rules.

There was a drop off in prime beef exports from Britain following the imposition of the new rules.

Integrated farming groups to link up

By Deborah Hargreaves

Five British groups promoting sustainable agriculture are expected to band together this week in an informal alliance to pursue less-intensive production methods.

The umbrella group, to be called the Integrated Arable Crop Production Alliance, will enable the groups to work more closely together, spread resources more effectively and achieve better publicity for the results of their studies.

Integrated farming aims to reduce the application of artificial inputs such as herbicides and pesticides while maintaining profitability. Most of the current research projects are investigating the environmental benefits of cutting inputs and how far they can be reduced without hurting profits.

The new group will include: Life, a project funded by the Ministry of Agriculture and part of a European network of integrated farm research; Link, which is looking at integrated farm systems on different soil types; and Leaf, which promotes farm practices where care for the environment is combined with modern methods.

The other two members will be Focus on Farming Practice, a study conducted by the Co-op's farm branch in Leicestershire, and the Farm and Wildlife Advisory Group, which works with farmers to minimise their impact on the environment.

Indonesia puts its oil industry on the back burner

The country could soon become Opec's first net importer, write Robert Corzine and Manuela Saragosa

Fifty years ago this week Japanese troops in the jungles of central Sumatra used abandoned American equipment to drill the only wildcat exploration oil well in Indonesia during the long Pacific war.

The oil-soaked sand that the drill bit struck during the night of December 4, 1944 turned out to be the Minas field, the largest oil accumulation east of Iran and east Asia's only "super-giant" field.

Its discovery came too late to change Japan's military fortunes. But in the 42 years since commercial production began Minas's low sulphur crude oil has helped to fuel Japan's economic transformation.

It has also helped to pay for Indonesia's ambitious industrialisation plans.

But just as south-east Asia has become the fastest growing international oil market, Indonesia is about to lose its status as a net oil exporter.

Many western companies say the day could be staved off if the government eased the conditions under which they operate as contractors to Pertamina, the state oil company. But the government appears to be betting that it can be the first member of the Organisation of Petroleum Exporting Countries to switch its energy exports from oil to natural gas, the world's fastest growing fossil fuel market. A recent World Bank report predicted that the oil sector's share of gross domestic product would drop to about 6 per cent by the year 2010, compared with 18 per cent in 1990 and 28 per cent in 1980.

Last month President Suharto told the Opec meeting in Bali that oil "no longer plays an important role" in the Indonesian economy.

But in spite of such statements there is considerable sensitivity about when the country will become a net oil importer.

The government says Indonesia can maintain its current status well into the next decade. Oil industry executives say it is likely to become a net importer before 2000, in spite of some easing last year of exploration terms.

"The government is not seriously encouraging exploration," said one US oil company executive in Jakarta. "Even if they change their terms now they might find they have done so too late because the exploration cycle takes so long."

A British executive said: "Pertamina understands the need to modify their exploration terms, but the government does not".

Some executives say Indonesia's success in diversifying its export base has had a big impact on the government's thinking about the the importance of the oil industry.

The World Bank predicts that the decline of oil export earnings means that non-oil exports will need to generate about 85 per cent of Indonesia's total export earnings in 2000.

Textile and timber products, the two main non-oil exports, are not showing substantial growth. Textile exports are actually slowing down. But there are fast-growing sectors, among which the World Bank lists ceramics, non-ferrous metals and electronic goods, which are poised to take over from oil.

Oil industry dissatisfaction with the government's current terms are reflected in the downturn in recent exploration activity. A report by Mackay Consultants of the UK says the number of offshore exploration and appraisal wells drilled this year has fallen to 45, compared with 48 in 1993.

Other analysts, such as Mr Gavin Law of international oil consultants Wood Mackenzie, say the downward trend is likely to continue, even though Indonesia has attractive frontier acreage, especially in the eastern part of the country around Irian Jaya.

He believes part of the problem is that Jakarta does not allow companies to offset high frontier exploration costs against their more mature production elsewhere in the country. A single exploration well in Irian Jaya can cost \$20m or more because of the remote location and harsh conditions, compared with \$2m or so in more developed areas.

The lack of exploration success has caused some western companies reduce their presence in the country, concentrating, in preference, on neighbouring Malaysia and Vietnam, where they say terms are far better.

Other companies, however, are responding to the government's greater emphasis on gas. The signing last month of the \$40bn contract with Exxon, the US energy group, to develop the giant Natuna gas field should help Indonesia to maintain its status as the world's largest exporter of liquefied natural gas.

Other gas fields are being developed for power generation within Indonesia, although questions over future government policies on electricity pricing and regulation could still hamper plans for gas to increase its share of domestic primary energy consumption to 32 per cent by 2000, from the current level of 25 per cent.

Tanzanian farming embarks on a quiet revolution

Paula Hawkins on a privately-backed programme emphasising science-based agricultural technology

In the village of Imbaseny, Tanzania, a slow and quiet agricultural revolution has been taking place over the past few years.

John Elisamia, an Imbaseny farmer, points to his healthy maize crop, the cobs twice the size of those grown by farmers just two miles along the road. He is expecting yields of 18 to 20 bags (90kg each) a hectare this year. Six years ago, he was getting only two or three bags.

His secret is simple: correct spacing, timely weeding and, most important, the use of chemical fertilisers.

Environmentalists need not cry "foul" as the volume of fertiliser used – about 25kg a hectare – is still well below the average used even in low-income economies. According to Norman Borlaug, winner of the 1970 Nobel Peace Prize for his part in India's "Green Revolution", Mr Elisamia's methods are those which must be adopted by Africa's peasant farmers on a wide scale if the continent's agricultural decline is to be reversed.

"The single most economically viable and environmentally friendly action to be taken is to promote moderate and proper use of chemical fertilisers in an aggressive manner," he says.

Mr Borlaug is president of the Sasakawa Africa Association, part of Sasakawa Global 2000, an international agricultural programme financed by Japanese businessman and philanthropist, Ryoichi Sasakawa, and supported by former US president Jimmy Carter.

The programme emphasises science-based agricultural technology as the key to increasing food production worldwide – an increasingly urgent task. Over the past 80 years, the world's population has grown from 1.6bn to 5.6bn. In 1990 the world's food production could have provided an adequate diet for 6.2bn, yet that same year more than 100m people in Africa faced food insecurity.

It is in rural Africa, home to more than 70 per cent of the continent's population, that the problem is most pressing. Population is growing at an annual rate of 3 to 4 per cent while agricultural output continues to decline. If these trends continue, Africa will be able to supply only 75 per cent of its own food by the year 2000.

SG 2000 came to Tanzania in 1989 and now has projects in seven regions, involving more than 35,000 small-scale farmers. The scheme operates through demonstration and training. Management test plots are established on land owned by farmers involved in a three-year training programme. In the first year inputs are provided on 100 per cent credit; in the second on 50 per cent credit; and thereafter farmers must pay for inputs themselves.

Sasakawa provides vehicles, tools and comprehensive training. The project is time-consuming and costly. Given SG 2000's annual budget (only US\$7m worldwide), the scheme could not possibly be extended to every village in Tanzania.

Michael Foster, SG 2000's country director in Tanzania, says that "Sasakawa's primary objective is to form an education base" that will give the revolution its own momentum, so that Imbaseny's experience might be replicated countrywide.

More than half of the village's farmers have adopted some or all of Sasakawa's methods.

According to Mr Foster, it is not essential that farmers use the precise technology package advocated by SG 2000, nor even that all the correct fertilisers and hybrids are readily available and affordable. What is essential is that farmers understand the concept underlying the package, and can thus adapt the methods to their particular circumstances.

The problems facing Tanzania's peasant farmers are immense – simply increasing yields is not enough.

Agricultural budget cuts have led to lower agricultural imports, with the result that fertiliser imports meet only 39 per cent of demand.

Storage also presents problems. John Elisamia estimates that he will lose about a third of his harvest because he has inadequate storage facilities. SG 2000's post-harvest technology programme involves building storage facilities, but materials are neither cheap nor readily available.

The other main problem concerns marketing. There is no guaranteed market for maize, and simply getting crops an outlet is a daunting task. Tanzania's weak infrastructure and transport difficulties raise overheads considerably: even in the relatively wealthy region of Arusha, roads are riddled with potholes. The World Bank is funding the renovation of trunk roads, but feeder roads to the rural areas receive little attention.

Any agricultural sector operates within the wider context of the economy as a whole: in Tanzania, that economy happens to be enormously aid-dependent and the second poorest in the world. Imbaseny's agricultural revolution stands little chance of spreading unless this general economic climate improves; if it does not, SG 2000's project may be relegated, like so many before it, to Africa's aid programme junkyard.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1837-8	1865-6
Previous	1836-7	1863-4
High/low	1851.5/1851	1892/1860
AM Official	1851-1.5	1878-9
Kerb close		1868-9
Open int.	256,135	
Total daily turnover	54,829	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1810-5	1850-5
Previous	1820-30	1850-5
High/low		1855
AM Official	1805-15	1845-55
Kerb close		1850-60
Open int.	2,994	
Total daily turnover	404	

■ LEAD ($ per tonne)

Close	618-9	635-6
Previous	630-1	646.5-7
High/low	623	643/634
AM Official	623-3.5	640-1
Kerb close		
Open int.	43,691	
Total daily turnover	10,716	

■ NICKEL ($ per tonne)

Close	8615-25	8750-60
Previous	8640-50	8770-80
High/low	8860/8850	9350/8750
AM Official	8850-60	8985-90
Kerb close		8790-800
Open int.	68,016	
Total daily turnover	21,129	

■ TIN ($ per tonne)

Close	5950-60	6040-50
Previous	5965-75	6055-65
High/low		6130/6020
AM Official	5970-5	6060-5
Kerb close		6030-40
Open int.	23,648	
Total daily turnover	5,922	

■ ZINC, special high grade ($ per tonne)

Close	1108-9	1137-8
Previous	1108.5-9.5	1137-8
High/low	1110/1109	1144/1137
AM Official	1110-0.5	1138.5-9
Kerb close		1138-9
Open int.	107,600	
Total daily turnover	21,245	

■ COPPER, grade A ($ per tonne)

Close	2895-6	2858-9
Previous	2912-3	2877-8
High/low	2908/2906	2893/2857
AM Official	2907-9	2872-3
Kerb close		2862-3
Open int.	246,245	
Total daily turnover	62,078	

■ LME AM Official £/$ rate: 1.5680

LME Closing £/$ rate: 1.5635

Spot:1.5635 3 mths:1.5629 6 mths:1.5619 9 mths:1.5609

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open int	Vol
Dec	134.20	-0.95	134.30	132.80	7,857	991
Jan	132.35	-	132.70	132.35	1,577	132
Feb	131.25	-1.40	131.00	130.45	827	2
Mar	129.95	-1.40	130.40	128.60	28,099	5,678
Apr	127.75	-1.25	127.00	126.80	691	2
May	125.25	-1.30	125.60	124.50	2,947	111
Total					52,108	7,903

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	376.10-376.50	
Opening	376.80-377.20	
Morning fix	377.00	240.434
Afternoon fix	377.00	240.587
Day's High	377.50-377.90	
Day's Low	375.50-375.90	
Previous close	376.00-376.40	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.87	6 months	5.64
2 months	5.02	12 months	6.31
3 months	5.22		

Silver Fix	p/troy oz.	US cts equiv.
Spot	299.25	468.75
3 months	303.50	475.35
6 months	308.50	482.95
1 year	320.60	501.25

Gold Coins	$ price	£ equiv.
Krugerrand	378-381	242-245
Maple Leaf	385.50-388.95	-
New Sovereign	87-90	56-59

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Dec	376.1	+0.3	377.5	375.1	2,386	985
Jan	377.3	+0.1	-	-	1	-
Feb	379.2	+0.1	380.5	378.1	91,300	19,868
Apr	383.2	+0.1	384.3	382.2	14,121	767
Jun	387.4	+0.1	388.7	386.7	20,747	39
Aug	391.9	+0.1	393.0	392.8	12,173	2
Total					180,819	22,583

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Jan	403.5	+1.5	404.0	402.0	14,625	2,445
Apr	407.9	+1.2	409.0	406.5	10,572	754
Jul	412.2	+1.2	413.0	413.0	1,964	5
Oct	416.7	+1.2	-	-	818	1
Jan	419.7	+1.2	-	-	14	2
Total					27,994	3,205

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Dec	152.30	+0.05	-	-	99	49
Mar	154.80	+0.05	155.50	154.75	5,860	699
Jun	156.05	+0.05	-	-	776	221
Sep	157.30	+0.05	-	-	108	12
Total					6,853	981

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Dec	461.6	-1.1	468.5	460.5	1,285	1,065
Jan	462.8	-1.1	-	-	82	3
Mar	468.6	-1.1	476.0	464.5	81,498	18,838
May	474.3	-1.1	481.5	471.0	8,054	628
Jul	480.4	-1.0	488.0	478.5	7,344	161
Sep	486.7	-1.0	493.5	487.0	9,629	210
Total					137,598	21,787

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	16.62	-0.32	16.94	16.42	83,101	33,631
Feb	16.67	-0.27	16.90	16.45	75,892	28,153
Mar	16.75	-0.24	16.98	16.57	43,233	9,084
Apr	16.85	-0.22	16.92	16.70	18,703	5,471
May	16.92	-0.17	16.96	16.83	14,934	2,441
Jun	17.00	-0.18	17.02	16.91	30,426	2,863
Total					412,484	85,813

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	16.02	-0.14	16.06	15.70	75,176	15,839
Feb	15.92	-0.14	15.99	15.66	54,458	12,988
Mar	15.85	-0.15	15.93	15.63	18,296	3,765
Apr	15.92	-0.07	15.92	15.69	8,150	398
May	15.89	-0.04	15.89	15.70	8,738	724
Jun	15.93	-0.03	15.94	15.70	8,757	1,006
Total					181,214	36,463

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	47.00	-0.29	47.45	46.00	51,429	13,816
Feb	47.70	-0.33	48.10	46.90	38,576	9,747
Mar	48.05	-0.29	48.40	47.30	17,252	4,571
Apr	47.90	-0.09	48.10	47.40	12,077	2,681
May	47.75	-0.09	47.75	47.40	7,046	836
Jun	47.55	-0.14	47.55	47.40	7,057	1,359
Total					164,738	33,829

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	139.50	-0.75	139.75	138.25	29,150	1,335
Jan	142.50	-0.50	143.00	139.50	31,888	5,450
Feb	144.75	-0.50	145.25	142.00	19,648	4,190
Mar	147.25	-	147.25	143.75	11,232	383
Apr	147.25	-	147.25	144.25	4,048	499
May	147.75	-	147.25	145.00	1,074	385
Total					107,004	23,354

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	1.725	+0.034	1.740	1.686	30,704	14,652
Feb	1.740	+0.025	1.750	1.711	18,458	3,453
Mar	1.745	+0.020	1.752	1.725	15,634	2,221
Apr	1.710	+0.013	1.719	1.695	8,921	1,042
May	1.720	+0.018	1.725	1.702	8,675	444
Jun	1.740	+0.038	1.748	1.712	7,890	804
Total					141,210	27,607

■ UNLEADED GASOLINE

NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	49.50	-0.96	50.60	47.50	25,232	19,595
Feb	49.95	-0.83	50.83	48.40	16,350	6,433
Mar	50.50	-1.00	50.80	48.75	8,501	2,222
Apr	54.30	-0.70	54.30	53.90	8,602	1,063
May	53.15	-1.15	53.15	53.15	4,279	564
Jun	54.00	-	-	-	1,453	147
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	106.15	+0.45	106.20	105.55	1,424	70
Mar	107.20	+0.50	107.20	106.45	1,734	40
May	108.95	+0.50	108.90	108.20	1,715	17
Jul	110.30	+0.15	109.90	109.90	272	5
Sep	95.40	+0.15	-	-	77	-
Nov	96.75	+0.10	-	-	840	-
Total					6,127	137

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	375/6	+3/2	378/0	371/4	1,708	2,168
Mar	391/2	+3/6	393/6	387/4	41,387	9,252
May	373/4	+3/2	374/6	371/0	6,578	673
Jul	343/0	+2/2	344/4	341/0	13,461	1,171
Sep	348/4	+2/4	348/6	347/0	627	161
Dec	359/6	+3/2	359/6	359/0	232	9
Total					84,002	13,273

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	216/0	+1/4	217/6	213/6	7,830	10,728
Mar	228/2	+2/0	230/4	226/0	110,294	25,808
May	236/2	+2/4	238/0	233/2	40,536	2,422
Jul	241/4	+2/6	243/6	238/4	46,932	5,783
Sep	246/4	+2/2	246/0	243/0	4,993	365
Dec	249/4	+2/2	250/0	246/6	24,181	1,852
Total					287,783	47,398

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	102.60	-	102.65	102.40	415	101
Mar	104.60	-	104.60	104.40	134	60
May	106.45	-0.05	-	-	52	-
Sep	94.75	-	94.75	94.75	32	18
Nov	96.25	-	96.25	96.25	61	23
Jan	98.00	-	-	-	-	-
Total					714	202

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	559/0	+1/2	563/0	557/2	47,538	17,293
Mar	568/2	+1/4	572/0	566/4	32,948	4,908
May	575/6	+1/6	579/2	574/0	16,705	1,257
Jul	580/2	+1/6	584/0	579/0	25,744	1,860
Aug	582/6	+1/4	585/6	581/4	2,137	123
Sep	583/4	+1/0	586/0	583/4	1,316	44
Total					138,483	28,319

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	28.88	-0.28	29.40	28.80	12,310	4,181
Jan	27.68	-0.22	28.18	27.55	35,733	8,618
Mar	26.70	-0.03	27.05	26.57	28,241	5,935
May	25.77	-	26.05	25.60	19,170	1,519
Jul	25.07	+0.08	25.20	24.82	11,228	1,664
Aug	24.70	+0.07	24.90	24.80	2,238	31
Total					120,677	22,925

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	155.5	+0.9	156.0	154.7	6,848	4,253
Jan	156.7	+0.7	157.5	156.1	31,784	6,864
Mar	160.5	+0.6	161.3	160.0	27,670	3,141
May	164.4	+0.5	165.2	163.8	13,168	1,173
Jul	169.4	+0.4	170.0	168.9	12,264	659
Aug	171.4	+0.3	171.8	171.0	2,890	19
Total					104,755	16,625

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	250.0	-	-	-	-	-
Apr	272.5	+4.0	272.0	269.0	1,279	102
May	290.0	-	-	-	2	-
Jun	250.0	-	-	-	-	-
Total					1,281	102

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	2025	+10	2025	2025	343	5
Jan	2002	+24	2003	1990	934	184
Feb	1956	+23	1959	1940	114	79
Apr	1860	+17	1855	1850	1,403	125
Jul	1618	+20	1615	1610	182	15
Oct	1703	+16	1700	1700	22	72
Total					2,976	421

	Close	Prev
BFI	1968	1977

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	988	+13	990	979	5,089	794
Mar	951	+7	955	943	45,391	5,255
May	953	+6	955	946	18,000	778
Jul	959	+5	962	957	7,718	18
Sep	968	+5	973	966	13,832	1,598
Dec	984	+4	988	982	11,390	616
Total					110,943	10,169

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	1268	+20	1265	1265	284	12
Mar	1264	+10	1276	1250	42,736	4,375
May	1275	+3	1286	1272	10,678	624
Jul	1290	-1	1301	1290	4,161	574
Sep	1311	-1	1320	1313	1,747	75
Dec	1338	+1	1345	1338	51,96	392
Total					77,716	6,192

■ COCOA (ICCO) (SDR's/tonne)

Dec. 6	Price	Prev. day
Daily	944.63	940.30

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	2938	+55	2980	2879	9,534	1,481
Mar	2878	+23	2910	2840	9,708	2,421
May	2868	+29	2880	2813	4,860	476
Jul	2865	+30	2835	2795	1,560	209
Sep	2833	+33	2825	2779	2,627	6
Nov	2818	+33	2815	2780	379	30
Total					28,788	4,765

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	161.00	-1.00	165.00	161.00	154	24
Mar	164.90	-0.60	168.85	164.00	17,618	4,837
May	167.00	-0.70	171.00	166.40	6,588	656
Jul	169.00	-1.40	172.75	169.00	2,807	164
Sep	170.25	-0.75	174.50	169.60	1,543	236
Dec	170.85	-1.40	174.75	170.25	1,185	19
Total					29,926	5,936

■ COFFEE (ICO) (US cents/pound)

Dec. 6	Price	Prev. day
Comp. daily	152.74	151.55
15 day average	158.85	160.26

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	13.00	-	-	-	-	-
Mar	14.83	-0.10	-	-	370	-
May	14.93	-0.12	-	-	860	-
Jul	14.71	-0.07	-	-	300	-
Total					1,530	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	408.20	-3.60	407.00	403.80	13,502	721
May	396.80	-2.00	397.00	395.00	5,266	465
Aug	386.10	-1.20	388.00	384.00	4,353	51
Oct	355.80	-1.40	357.00	354.50	1,681	17
Dec	351.00	-1.40	-	-	128	-
Mar	360.00	-1.30	-	-	219	-
Total					25,199	1,254

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	14.81	-0.10	14.83	14.48	88,639	16,625
May	14.66	-0.09	14.68	14.55	38,825	8,715
Jul	14.37	-0.09	14.40	14.26	22,843	2,388
Oct	13.42	-0.06	13.43	13.33	23,384	1,647
Mar	12.81	-0.09	12.84	12.80	6,102	236
May	12.58	-0.07	12.87	12.60	1,623	19
Total					182,669	28,235

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	84.27	+2.42	84.00	82.50	230	155
Mar	84.17	+1.83	84.25	83.05	31,776	7,255
May	84.35	+1.80	84.40	83.30	10,583	1,912
Jul	83.92	+1.80	84.00	83.10	5,769	1,416
Oct	74.40	+0.80	74.45	74.00	1,026	49
Dec	72.25	+0.55	72.30	71.80	5,226	250
Total					54,971	11,047

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	109.55	+0.45	111.45	109.25	11,765	3,098
Mar	113.15	+0.50	114.75	112.75	7,898	1,398
May	116.15	+0.35	117.25	116.00	1,845	114
Jul	118.85	+0.10	119.50	118.50	1,066	25
Sep	121.45	-0.10	128.00	123.00	2,143	112
Nov	121.45	-0.05	-	-	1,580	152
Total					26,619	4,849

Cotton

No spot or shipment sales were reported in Liverpool for the week ended December 2 against 395 tonnes in the previous week. Activity was severely restrained and business was on narrow lines. Cost of raw cotton deterred users from increasing their purchases.

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Dec 7	Dec 6	month ago	year ago
N/A	2069.7	-	-

■ CRB Futures (Base: 1967=100)

Dec 6	Dec 5	month ago	year ago
227.08	227.03	233.87	220.88

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	68.275	+0.325	68.375	67.950	11,374	3,227
Feb	68.175	+0.675	68.275	67.850	29,576	5,050
Apr	69.350	+0.450	69.400	69.050	19,118	1,421
Jun	64.450	+0.075	64.625	64.375	6,550	395
Aug	62.725	+0.125	62.950	62.700	2,589	104
Oct	63.500	+0.075	63.700	63.500	1,167	53
Total					70,555	10,232

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	30.850	-0.400	31.550	30.800	3,570	2,847
Feb	35.000	-0.075	35.550	34.750	15,151	3,836
Apr	36.050	-	36.450	35.925	7,691	1,584
Jun	41.450	-0.250	41.775	41.400	4,192	1,023
Aug	41.500	-0.075	41.675	41.450	1,085	143
Oct	39.650	+0.050	39.675	39.550	907	139
Total					33,711	9,874

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	36.000	-0.250	36.600	35.800	7,954	3,272
Mar	36.300	+0.075	36.900	36.200	1,417	286
May	37.625	+0.100	38.025	37.600	519	80
Jul	38.675	+0.025	39.050	38.650	418	82
Aug	37.975	+0.150	38.200	37.800	178	12
Feb	47.975	+0.275	47.975	-	9	1
Total					10,496	3,721

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Feb	May	Feb	May
1825	107	157	68	111
1875	82	133	93	136
1925	61	112	122	164
■ COPPER (Grade A) LME	**Feb**	**May**	**Feb**	**May**
2800	137	150	168	84
2850	117	121	195	85
2900	99	97	225	110
■ COFFEE LCE	**Jan**	**Mar**	**Jan**	**Mar**
3000	60	159	122	281
3050	45	144	157	316
3100	33	130	195	352
■ COCOA LCE	**Mar**	**May**	**Mar**	**May**
900	74	84	23	31
925	59	70	38	42
950	46	57	45	54
■ BRENT CRUDE IPE	**Jan**	**Apr**	**Jan**	**Apr**
1600	22	73	25	84
1650	8	54	60	113
1700	5	39	104	148

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jan)

		+or-
Dubai	\$15.25-5.28z	-0.085
Brent Blend (dated)	\$15.70-5.72	-0.35
Brent Blend (Jan)	\$15.90-5.92	-0.30
W.T.I. (1pm est)	\$16.69-6.73z	-0.28

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	\$154-156	+1.0
Gas Oil	\$140-141	-1.0
Heavy Fuel Oil	\$91-93	-1.0
Naphtha	\$174-176	-3.0
Jet fuel	\$160-162	-1.0
Diesel	\$146-147	-1.0

Petroleum Argus. Tel. London (071) 359 8792

■ OTHER

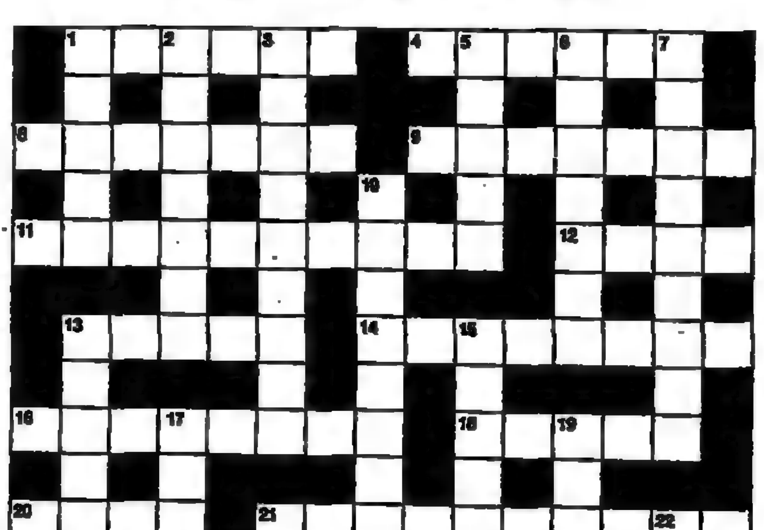
Gold (per troy oz)♣	\$376.30	+0.10
Silver (per troy oz)♣	468.0c	+3.5
Platinum (per troy oz.)	\$403.50	+2.00
Palladium (per troy oz.)	\$153.30	+0.05
Copper (US prod.)	140.0c	-1.0
Lead (US prod.)	40.75c	
Tin (Kuala Lumpur)	15.31r	+0.02
Tin (New York)	279.5c	-3.0
Cattle (live weight)†	121.28p	+3.72*
Sheep (live weight)†♣	119.11p	+10.58*
Pigs (live weight)	79.22p	+0.60*
Lon. day sugar (raw)	\$353.40	-1.40
Lon. day sugar (wte)	\$409.00	-2.60
Tate & Lyle export	£340.00	-2.00
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	£132.0	
Wheat (US Dark North)	£165.0	
Rubber (Jan)♥	98.50p	+1.50
Rubber (Feb)♥	97.50p	+1.50
Rubber (KL RSS No1 Jul)	383.0m	+1.5
Coconut Oil (Phil)§	\$702.5y	+7.5
Palm Oil (Malay.)§	\$740.0z	-7.5
Copra (Phil)§	\$454.0q	-3.0
Soyabeans (US)	£168.0z	
Cotton Outlook'A' index	85.10c	+0.60
Wooltops (64s Super)	464p	

[illegible]

JOTTER PAD

CROSSWORD

No.8,631 Set by ARMONIE



ACROSS

1 Banger caused premature ending to sea battle (6)
4 Shylock was trustworthy when in old city (6)
8 An element or order in the sea (7)
9 Assault created courtroom anger (7)
11 Clothing displays by the river (10)
12 Clean city (4)
13 Shy bear, say, or other animal (5)
14 You'll go a long way to finish this engagement (8)
16 Panel acquires bird for trollop (8)
18 Great girl has telescope (5)
20 Junkie had part in Jailhouse Rock (4)
21 Stock madeira, say, for animal consumption (6,4)
23 Mineral found during depression. It's priceless! (7)
24 I get chalet arranged. It's just.... (7)
25 ....the proposition for the amorous (6)
26 Shrink from phone in church (6)

DOWN

1 Tie leaves up (5)
2 Strike to kill swimmer (7)
3 Lamb's companion gets punch on the cheek (4,5)
5 Place to rest when on a flight (5)
6 Choice piece of food (7)
7 This rogue could become honourable (9)
10 Preparing a regiment to shoot (9)
13 Plant firearms on infantry (9)
15 Tax officer gets involved in customary interim tax rate change (9)
17 Turning back from Salerno is rotten luck (7)
19 Conflict about acceptable type of bridge (7)
21 Fidget as it's hot in bistro (5)
22 Cheat at cards? (5)

Solution 8,630

هكذا من الاصل

FINANCIAL TIMES SURVEY

VIETNAM

Thursday December 8 1994

Agriculture is still the foundation of the country's economy. Page 3

The cost of doing business in Vietnam is rising at an alarming pace. Page 4

Catching up with its Asian rivals

While the business acumen of the Vietnamese is fuelling an economic boom in the cities, rural life is also beginning to improve, says Victor Mallet

When Vietnamese communist party officials laid bouquets of flowers before Lenin's statue in Hanoi last month to commemorate the Russian revolution, it was more a nostalgic gesture than an act of ideological homage and commitment.

For it is the ideology and practice of capitalism – known officially as "socialism with a market economy" to spare the blushes of communist stalwarts – that is spreading throughout Vietnam at breathtaking speed.

Among the first Vietnamese to seize the opportunities presented by *doi moi* (renovation), the policy of reform introduced by the party in the late 1980s, were the entrepreneurial residents of Ho Chi Minh City, the southern commercial and industrial centre previously called Saigon.

The south's businessmen and women, who had lain dormant since the communist victory over the US-backed South Vietnamese government in 1975, responded enthusiastically to the reforms by opening trading companies, factories, banks, restaurants and chic boutiques.

The streets of Cholon, the ethnic Chinese business district, seethe with commercial activity. In 1988, Ho Chi Minh City had only 22 registered private companies; today it has 2,600, not to mention tens of thousands of small shops. Traffic jams and ugly concrete buildings are becoming more common.

Hanoi and the north did not take long to follow suit. Only three years ago the capital was a quiet, spartan backwater of south-east Asia with almost no modern facilities.

Now it has pizza restaurants, satellite television, meter taxis, karaoke bars, private hotels and mobile telephones, a transformation reinforcing the view that each industrial revolution in east Asia happens quicker than the last.

Few opportunities are missed to make money. Last month the $25m Do Son Casino near the port of Haiphong, a joint venture between Hong Kong investors and the local government, opened its doors to visiting foreign gamblers. On the streets of Hanoi, hawkers openly sell confidential government and World Bank reports on the economy, and photocopies of books banned in Vietnam for criticising the communist party.

Less obvious to outsiders than the economic boom in the cities, but just as important, are the changes in the countryside.

Most rural Vietnamese are still desperately poor and are forced to choose between surviving on their overcrowded farmland and migrating to the towns, but the situation seems to be improving slowly.

The United Nations calculates that 51 per cent of Vietnam's 72m people live below the most basic poverty line – the level at which they can afford 2,100 calories of food a day – but that is down from 70 per cent of the population a decade ago.

Peasant farmers, taking advantage of secure land tenure and the chance to make money in a liberalised agricultural market, have sharply increased their output. Vietnam, which once used to suffer from rice shortages, has become the world's third largest rice exporter after the US and Thailand.

The private sector's share of gross domestic product has risen to 45 per cent from 10 per cent in less than a decade, Vietnamese government economists say, and the reforms have led to rapid economic expansion; real GDP growth is expected to reach nearly 9 per cent this year.

Foreign investors and aid donors, along with hundreds of thousands of Vietnamese exiles and the overseas relatives of the ethnic Chinese, are providing much needed capital to finance economic development in a country where average per capita income is still only about $250 a year.

Last month donors pledged $2bn to support Vietnam at a meeting in Paris, adding to the $1.86bn that was agreed last year.

Foreign investors have promised $10bn of projects since 1988, with the emphasis on the textile industry, oil and gas exploration and new hotels.

Five international investment funds have been established to direct money into what has become Asia's most fashionable emerging economy.

Vietnamese and foreign companies are quick to complain about the many problems that remain to be solved: cumbersome bureaucracy, corruption, the reluctance of state enterprises to undergo privatisation, the lack of economic and commercial legislation, the primitive state of the domestic banking system and conflicts between central and local governments.

Luxury housing construction, Ho Chi Minh City/Lenin statue, Hanoi: the practice of capitalism is superseding the ideology of communism Reuter/Sarah Murray

But Vietnam's leaders, from prime minister Vo Van Kiet downwards, are by Asian standards remarkably frank about the government's shortcomings and eager to accelerate economic reforms wherever possible to achieve the official goal of "a prosperous people, strong country, and just and civilised society".

In the next few weeks the government is expected to respond to criticisms about the complexity of licensing procedures for foreign investors by announcing a new package of investment rules. Among other changes, a requirement for feasibility studies is likely to be waived for small projects.

"I myself say we Vietnamese are moving too slow," says Tran Ba Tuoc of VP Bank, a newly-founded private bank in Ho Chi Minh City. "But looking back, we have done a lot. In the next two to three years I'm sure we will get almost everything in place."

Several central government ministries, the army, and the local communist people's committees in different provinces have adapted capitalism to their own ends. They have set up their own businesses or entered into joint ventures with foreign investors who cannot find big enough partners in the fledgling private sector.

The government nevertheless wants free enterprise to thrive so that Vietnam can catch up with and compete with its Asian rivals. While it concentrates on economic development, Vietnam is urgently seeking to make friends in the region and the wider world.

President Bill Clinton finally lifted the US economic embargo against Vietnam in February this year, but the US administration feels unable to restore full diplomatic relations with the communists who won the Vietnam war for fear of protests by American conservatives; the two governments are expected to open "liaison offices" in each other's capitals shortly.

Vietnam, meanwhile, hopes to join the Association of South East Asian Nations next year and is trying to resolve its territorial and maritime disputes with China.

When it comes to domestic politics, Vietnam's communists – like their Chinese counterparts – have no intention of abandoning the single-party system, even if Marx and Lenin are not much talked about in Hanoi or Ho Chi Minh City these days and constructive criticism of the government is officially welcomed.

"The government is very wary of losing control," says one diplomat in Hanoi. "The trouble is, as you get more and more foreigners coming in, more and more Vietnamese travelling abroad and more telephones, it becomes more difficult."

Vietnamese officials have trouble defining the ideological basis for communist party rule in a free market economy. Asked to explain what he means by socialism, Le Mai, the deputy foreign minister, says: "Socialism is bringing better material and spiritual living conditions for the people as a whole."

Government leaders are adamant, however, that economic reform should precede political change (unlike in much of eastern Europe) and they insist that one-party rule is essential for stability, a view shared by other authoritarian governments in east Asia.

"The people here are very careful to maintain political stability," says Mr Mai. "And they understand that by maintaining that, the economy can continue to grow."

Eventually the Vietnamese communist party, which earned its nationalist credentials fighting off French, Americans and Chinese, may have to confront popular challenges to its legitimacy and abandon the ritual obeisances to Lenin.

But for the time being it faces only spasmodic opposition from Buddhist monks and south Vietnamese exiles living in California. Almost everyone else is too busy trying to make money.

Obstacles hinder further growth, says **Victor Mallet**

Completing the transformation

Three years ago the Vietnamese capital Hanoi was a city of quiet avenues frequented by cyclists, pedestrians and the occasional army lorry; at night the gloom was pierced only by flickering lanterns and low-wattage light bulbs.

Today the city is experiencing its first taste of traffic congestion and noise pollution. New hotels, karaoke bars, pizza restaurants and massage parlours, adorned with multicoloured lights and signs, are springing up across the town; motorcycle delivery men speed along the streets with towering cargoes of television sets and cigarettes.

Ho Chi Minh City, the southern commercial centre has already undergone this transformation; now it has chic bars, fashionable boutiques and traffic jams. Danang in central Vietnam is also developing fast.

Vietnam's economy has gone from strength to strength since the ruling communist party decided to loosen central control and encourage private enterprise with its *doi moi* programme in the late 1980s.

Remarkably, the first reforms – including devaluation – were undertaken without financial help from multilateral institutions, because the US had vetoed such assistance.

Since the lifting of the veto last year, Vietnam has sealed agreements with the International Monetary Fund, the World Bank and the Asian Development Bank, as well as bilateral donors such as Japan.

The benefits of reform are not in doubt. Latest Vietnamese government estimates suggest that real gross domestic product will grow by 8.8 per cent this year, rising to nearly 10 per cent in 1995 and perhaps more than 10 per cent per year thereafter.

The most important challenge is the need to reform and educate the government bureaucracy

Foreign donors have heaped praise on Vietnam for its handling of macro-economic issues. Firm control of the money supply helped bring Vietnamese inflation down to 5.2 per cent by the end of 1993 from nearly 70 per cent in 1991.

Inflation has recently risen to more than 11 per cent – above the government's 10 per cent target – but most economists say Vietnam is unlikely to face the surge of inflation experienced by neighbouring China, whose much larger economy is undergoing similar reforms.

A rise in Vietnam's retail prices this year on the back of high demand for everything from consumer goods to construction materials was regarded as inevitable.

The current account showed an alarming deficit of $1.1bn or 8.3 per cent of GDP in 1993, after being nearly in balance in 1992, but that was partly due to a sharp rise in imports of equipment for foreign investment projects which will help to increase exports in the future.

Furthermore, the current account deficit was brought under control in early 1994 with the help of tighter fiscal and monetary policies. Import growth slowed while exports continued to rise, and the current account deficit is predicted to fall to about 5 per cent of GDP this year.

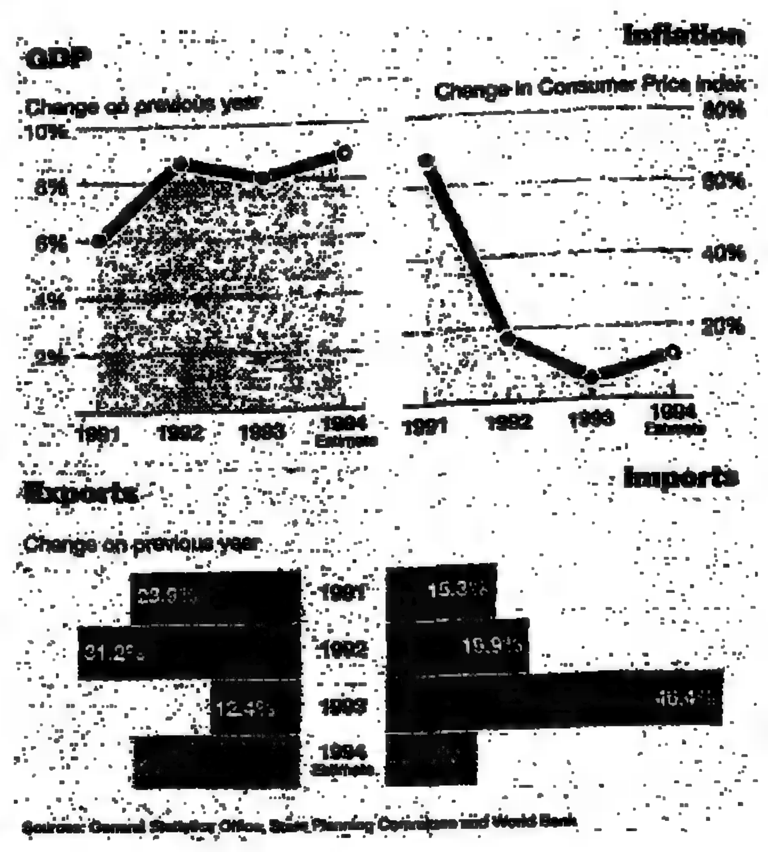
The government spending curbs have also reduced the budget deficit to an estimated 3 per cent of GDP this year from a worrying 6.2 per cent in 1993. "This reflects the fact that they have been able to respond to reality," said an official from one international donor agency. "They were put to the test this year and they responded well at the macro-level."

The government and donors agree, however, that several obstacles to rapid economic growth will have to be removed in the next few years. Ports, roads, railways and power and water utilities are all in urgent need of improvement and foreign aid is pouring in for this purpose.

But probably the most important challenge facing Vietnam's leaders is the need to reform and educate the government bureaucracy so that it can rid itself of corruption, shake off the old-fashioned mentality of central planning and restrict itself to establishing laws and regulations that will allow business to flourish.

"It is still very common that scarce [state] funding resources are used to build offices, buy expensive equipment and organise showy activities," Vo Van Kiet, the prime minister, told the National Assembly in October. "Corruption and bureaucratism remain serious ... Public administration reform is becoming an urgent issue."

Dock worker at Doan Xa container terminal, Haiphong: exports have continued to rise Sarah Murray



Sources: General Statistics Office, State Planning Committee and World Bank

While the broad outlines of government policy may promote economic growth, government officials are often reluctant to implement it. "What needs attention today is not so much the identification of new policies but rather a wholesale renovation of public institutions to make them more efficient," says Roy Morey, resident representative in Hanoi of the UN Development Programme.

A typical crisis of economic management arose in August when the government suddenly announced that transactions in Vietnam would have to be in dong, the local currency, rather than the US dollar, which is widely used.

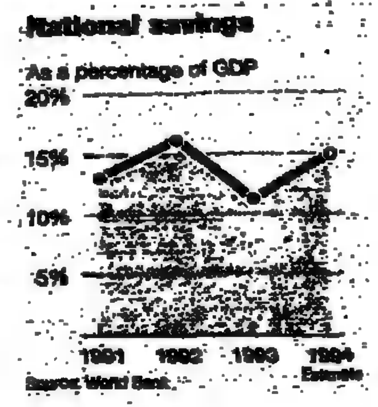
Although businesses and donors sympathised with Vietnam's desire to restore the dong to its rightful place, the initial announcement was so vague that foreign investors feared they would not be able receive dollar earnings and meet hard currency obligations abroad.

"There was total panic here for several weeks," said one foreign banker. It subsequently turned out that the decree appeared to affect only domestic transactions, and that it was being enforced only gradually.

The World Bank, in its latest report on the Vietnamese economy, suggests that the government is attempting to keep too much central control of decision-making, a tendency which it believes will strangle investment and growth and breed corruption as the economy becomes more complex.

The answer, according to the World Bank, is to decentralise, for example by allowing local authorities to raise and spend taxes for local services.

However, the recommendation is controversial. Some local communist authorities have proved to be extremely corrupt and are already being accused of running their own fiefdoms, defying national laws on everything from prostitution to investment.



Source: World Bank

Several senior members of the government also have an ideological bias in favour of central control, and the public sector is still officially supposed to play a leading role in the economy.

While farmers and small traders have flourished under the economic reform programme, there are still only a few substantial Vietnamese private companies.

All over Vietnam, the communist people's committees, the armed forces and various ministries which control most of the country's assets have used their influence to enter into joint ventures with foreign companies. Foreign investors have little choice, because in most cases there is no-one else with whom they can do business.

Managers of state enterprises and government officials still tend to think in terms of quotas, plans and volume of production, rather than profit or rates of return.

For the time being, Vietnam is a hybrid economy in which the state – represented by the communist party, the army and various ministries – will continue to play an important role.

"This period in Vietnam is transitional," says Do Duc Dinh of the Institute on the World Economy in Hanoi. "We have not yet up set up a very clear framework, unlike other countries where they have built market economies for three or four decades."

Prospects for capital markets

Legal framework vital to progress

Vietnam's urgent need for funds to rebuild the economy – combined with a widespread lack of faith in domestic banks that has kept savings rates low by east Asian standards – has convinced the government it needs to establish local capital markets fast.

Whether it will be able to do so as planned during the coming year remains an open question. The first step is expected to be the formation of a National Securities Commission, but the finance ministry and the central bank have been arguing over which of them should be in control.

The new body would then set up a secondary market for the handful of bonds issued by the government and state enterprises, followed by a stock exchange for the shares of joint stock companies such as banks and partially privatised state companies.

"We anticipate a small-scale bourse being established some time in 1995," said Nick Freeman, Vietnam analyst for Baring Securities. "The arguments for a stock market are widely accepted. It's now a case of putting together the legislative framework to make this a possibility."

But sceptics believe that the shortcomings of the legal system and other problems will delay the establishment of a market beyond the end of 1995. The underdeveloped banking system, for example, may make capital markets seem attractive by comparison as a way of mobilising savings, but it also hinders the operation of such markets.

Among recent improvements to the banking sector, the authorities permitted the use of personal cheques for the first time since 1975, but bankers say most cheques have to be individually certified by the issuing bank, making the transaction very cumbersome.

Another problem is the shortage of companies that could be listed on the future stock exchange. Large, domestic private companies are few in number and privatisation of state firms has stalled.

Of more than 6,000 state-owned enterprises that survive in Vietnam, only three (a transport company, a shoe factory and a refrigeration firm) have so far been successfully prepared for privatisation. The government is reluctant to privatise prime companies such as Vietnam Airlines.

"It's still very difficult," said Do Duc Dinh, a government economist. "The accounting system is still not good and we can't calculate the value of an enterprise and divide it into shares."

It will also take time to overcome basic legal obstacles, let alone formulate complex regulations for capital markets. Vietnamese bankruptcy rules and a commercial code have yet to be finalised.

Lastly, some Vietnamese worry that a hurriedly established stock market in Ho Chi Minh City would be so speculative and poorly regulated that it would quickly discredit itself without doing much for business in Vietnam.

"We need a legal framework first and the government must educate people on the functions of such a market," says Huynh Buu Son of the Saigon Bank for Industry and Trade, a bank owned by a mix of private and public shareholders that would probably be among the first companies to be listed. "We must be sure before we start."

Victor Mallet

صكذا من الاصل

Obstacles could dampen investors' enthusiasm, says **Victor Mallet**

Ambitious targets to meet

Where the Americans once fought, they are now preparing to manufacture toilets. American Standard, the sanitary ware maker, recently held a party at Ho Chi Minh City's Unification Palace to announce plans to invest $17m in a factory in Vietnam.

Similar parties are held each week by new investors, and the Americans (who were banned by the US embargo until February this year) are only the latest arrivals. The biggest investors are Taiwan, Hong Kong and South Korea; Daewoo of South Korea is investing more than $300m to make products ranging from pesticides to electronic components.

Since Vietnam enacted a foreign investment law six years ago as the centrepiece of its economic reform programme, foreign companies have promised about $10bn of export-oriented and import substitution projects. They will transform the economy and help Vietnam to emulate fast-growing, export-driven south-east Asian economies such as Thailand and Indonesia.

Commodities, such as crude oil and rice, still account for most of Vietnam's exports, but processed foods, garments, televisions and other goods manufactured in Vietnam will play an more important role in the economy as foreign investment projects come on stream.

American Standard, for instance, says its joint venture in Song Be province will save Vietnam $10m of foreign exchange in its first year of operation alone by replacing imported toilets, basins and baths with locally-made wares. Eventually the factory may export products too.

For all its success in attracting foreign investors, Vietnam may find it hard to meet its own ambitious targets. Of the $45-$50bn in capital Vietnam wants in the current decade to increase the income of its inhabitants, about $20bn is expected to come from foreign direct investment; but out of the $10bn promised so far, only about $3.5bn will have been spent by the end of this year.

Although foreign investors will complete more of their promised projects and make new commitments in the years ahead to take advantage of Vietnam's market of 72m people and the opportunities for export, they still face numerous difficulties that could dampen their enthusiasm.

The initial approval process for foreign investment is slow and bureaucratic, involving the State Committee for Co-operation and Investment (SCCI) and various ministries and local authorities.

And once a project is approved, investors find that the laws and regulations governing their business are vague or non-existent and arbitrarily enforced. Physical infrastructure is inadequate – ports are congested and ill-equipped, for example – and the skills and raw materials required may be hard to find locally.

Construction is a case in point. Investors keen to profit from the shortage of hotels, housing and office space often find themselves saddled with delays and budget overruns. Even materials which are locally available – marble, for instance – are sometimes of low quality because the equipment used to manufacture the product is old and worn.

There is no clear process for approving building projects, investors say. The proposed Construction Law is in its 14th draft and has yet to be passed by the National Assembly, which meets for about a fortnight twice a year. When it is passed, subordinate regulations will have to be written by the relevant ministry.

A barrage of complaints from investors has made the Vietnamese government aware of the obstacles to foreign investment and it has plans to simplify licensing procedures for new projects. "Any investors coming to Vietnam face some major difficulties," admits Bui Huy Hung of the SCCI in Hanoi. "Our policy is to set up a one-stop shop system, but we cannot fulfil it in one day."

By the end of the year, the government is expected to announce a new package of investment promotion measures. Feasibility studies will probably no longer be required for smaller projects and the time taken by the authorities to evaluate and license them should be reduced to less than six weeks from three months or more at present.

In line with World Bank recommendations, the central government is expected to devolve decision-making power to local authorities for some matters affecting new projects such as land pricing, although the central government will attempt to retain overall control.

Mr Hung, who recently visited China, said the decentralisation he saw there was less viable in a smaller country such as Vietnam. "Even in China they face a big problem with decentralisation," he said. "Each province issues another incentive. They forget the national way... each province issues a car assembly licence – it's a crazy situation."

Foreign companies have hitherto concentrated their efforts on investments offering a quick financial return in foreign exchange, such as hotels and light industry. In an attempt to lure money into infrastructure projects with longer payback periods, Vietnam this year announced special incentives for "build-operate-transfer" (BOT) projects.

The SCCI says Vietnam guarantees that BOT investors in such sectors as electricity generation and water supply can convert their dong profits into hard currency. In addition, BOT investors are allowed to mortgage their long-term land-use rights as security for loans from foreign banks.

Vietnam has also started granting licences for the establishment of what it calls "concentrated industrial zones" (CIZs) – the first should go to Nomura of Japan for an industrial estate in Haiphong – to complement the six export processing zones (EPZs) already approved.

Factories in EPZs must export 100 per cent of their production, but CIZ factories will be permitted to sell some of their output to the domestic market.

Top 10 investors since 1988

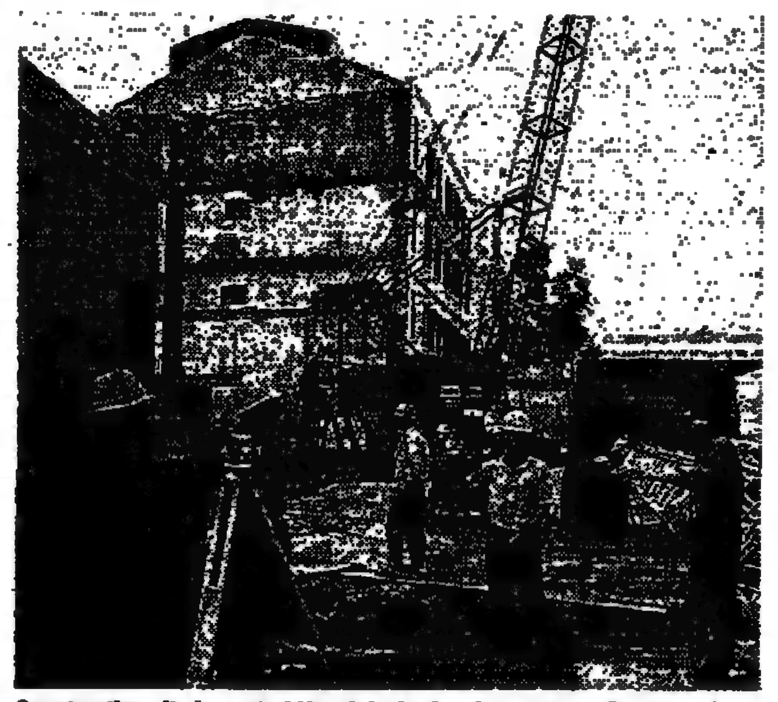
Country	Projects in operation Total capital:$m
1. Taiwan	1,914
2. Hong Kong	1,628
3. South Korea	855
4. Australia	639
5. Singapore	621
6. Malaysia	575
7. Japan	548
8. France	533
9. Netherlands	394
10.UK	376
Total (incl. others)	9,730

Source: SCCI

Total capital of investments by industrial sector

Sector	$m (rounded)
Industry	3,932
Hotels and tourism	1,997
Oil and gas	1,285
Services	730
Transport and communications	636
Export processing zones	388
Agriculture and forestry	385
Finance and banking	177
Miscellaneous	92
Aquaculture	60
Housing development	46
Total	9,730

Source: SCCI



Construction site in central Hanoi: lack of a clear process for approving building projects is frustrating foreign investors Sarah Murray

Kieran Cooke on agriculture

Fluctuating fortunes

Foreign investors and local entrepreneurs are busy weighing up opportunities in Vietnam's industrial and service sectors. But agriculture is still the foundation of the country's economy, involving more than 70 per cent of the population.

In 1993 agricultural goods, including forestry and fishery products, accounted for more than 50 per cent of total export revenues. Vietnam now ranks as the world's third biggest rice exporter, after Thailand and the US.

The fortunes of the agricultural sector have fluctuated both because of the weather and the vagaries of government policies. According to officials, recent widespread flooding has resulted in losses of more than 1m tonnes of rice.

But earlier surpluses mean that Vietnam is still likely to achieve a record production figure of 25m tonnes of rice and paddy equivalent this year, of which about 2m tonnes will be exported. The export figure includes an estimated 300,000 tonnes of rice that is smuggled across the northern border and sold in southern China.

Government policies have had a more serious effect on agricultural production. When the country was reunified in the mid-1970s, the Hanoi leadership embarked on a five-year economic plan which sought to integrate the northern and southern economies.

Agricultural collectives, formed in the north in the 1950s, were introduced in the south, which accounts for about 70 per cent of Vietnam's total rice production. The idea was for the richer south to help the poorer north, with southern earnings from agricultural surpluses funding industrialisation, particularly in the north.

The policy was a failure. Michael Williams, in his book "Vietnam at the Crossroads" outlines the reasons. "The plan took little account of the resistance of the peasantry in the south to collectivisation and was anyway far too ambitious in thinking that the land would generate sufficient surpluses to fund industrialisation. It also took insufficient account of the damage inflicted on the country by decades of war. Finally, in its hopes for international funding of postwar economic reconstruction, it was wildly optimistic."

By the early 1980s the government was rolling back its collectivisation policy, allowing families to control some land and permitting the sale of produce surplus to quota requirements on the open market. Production soared. By the late 1980s the family farm was established as the main unit of agricultural production: state sector farms now account for only about 4 per cent of the agricultural sector. In 1989 Vietnam turned from being a rice importer to exporter.

But while Vietnam, is one of the world's most densely cultivated countries, population growth of more than 2 per cent each year means the country still faces problems feeding its people.

Furthermore, Vietnam once relied on the old Soviet Union and countries of eastern Europe as a market for its rice exports. Though it has recently entered into long-term rice purchase agreements with Malaysia, Brazil and the US, it lacks marketing expertise. Compared to other big rice producing countries in the region, such as Thailand and Indonesia, yields in Vietnam are low and quality is poor. Thai rice fetches $50-$100 per tonne more on the international market.

"The main problem is a lack of rural credit," says Chu Van Lam, a Hanoi based agricultural specialist. "Most farmers cannot get hold of funds to improve their land, to buy fertilisers, to purchase tractors. It's the same in most sectors of the economy – everyone is in need of capital."

The state run Agricultural Bank gives loans to about 40 per cent of rural households, but at high interest rates and for only six-month periods. The World Bank has given Vietnam a $96m loan for restructuring the agricultural sector – with $50m of the loan going to rural credit programmes.

"The policy of the government is to keep rice exports at about 2m tonnes while putting more emphasis on cash crops such as rubber, coffee, tea, fruit and vegetables," says Mr Lam. "These crops offer far better returns but again there is a need for capital to rehabilitate old plantations and improve the land."

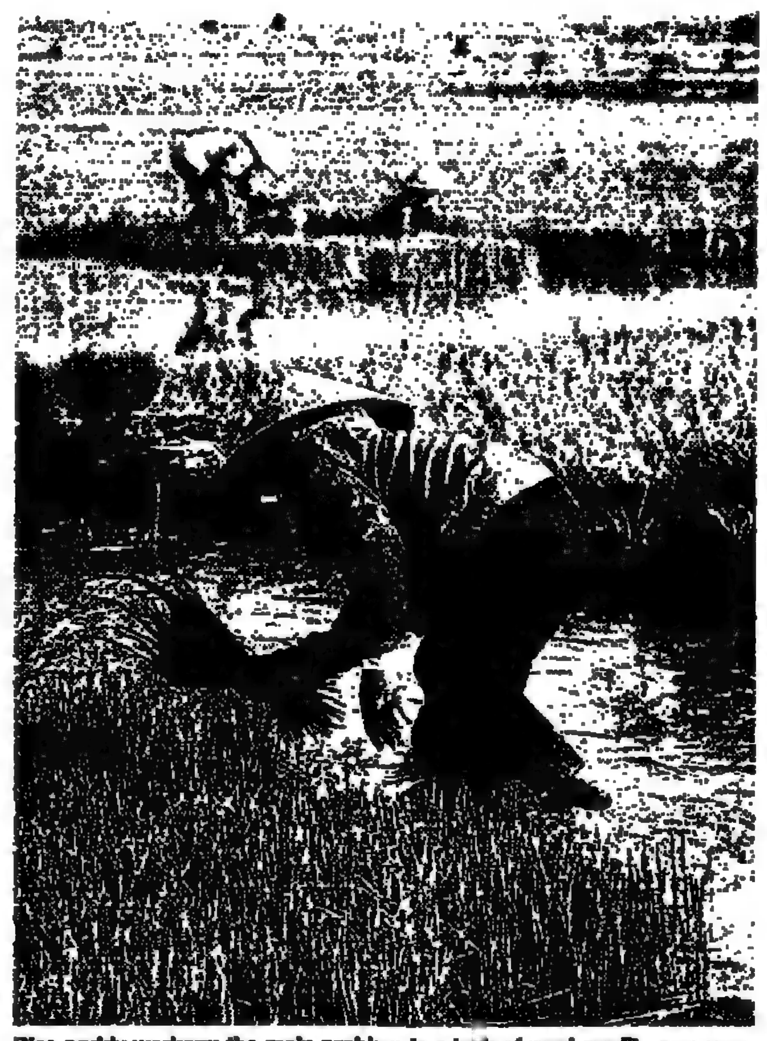
Some progress has been made. Rubber production rose by 10 per cent in 1993. Corn production has also increased recently. Over the past three years the coffee crop has nearly doubled.

But Vietnam lacks not only marketing skills but processing facilities. Most of the benefits of its seafood industry – a potentially big growth area – are reaped by Thai traders who buy seafood from Vietnam and carry out the high value added processing and marketing.

The years of war continue to take their toll. The spraying of "Agent Orange" defoliants by the US in many parts of the country poisoned the land. A large percentage of the rubber plantations were destroyed by US bombing.

A headache for the government is a growing imbalance between incomes in urban and rural areas, and the resulting rural migration to urban areas. National average per capita income is estimated at more than $200 per year. But in many rural areas it is probably less than half that figure. Donor agencies estimate that 51 per cent of Vietnam's population lives below the poverty level, most of these in rural areas.

The government, aware that such developments threaten long-term social stability, is encouraging investors, local and foreign, to set up plants in rural areas. Under a new scheme the official Farmers Association has created Vinanimex, a company charged with channelling investments into the countryside. Vinanimex intends to establish hundreds of garment manufacturing facilities in the countryside and says it has found at least one foreign company willing to co-operate.



Rice paddy workers: the main problem is a lack of rural credit Sarah Murray

Foreign exploration indicates gas could have greater potential than oil

Winners yet to appear

A string of disappointing results from oil blocks in Vietnam's southern waters has punctured the optimism of the foreign energy companies which have been prospecting since 1992. Indications are that gas, not oil, could be the country's fuel of the future.

None of the eight foreign operators that have drilled in the Nam Con Son basin (an area 350km south of the coastal town of Vung Tau) has struck commercially viable amounts of oil. Many, including big names such as Shell, Total and British Petroleum (BP), are still committed to drilling exploration wells as part of contractual arrangements with state oil agency PetroVietnam, but a major discovery of natural gas by BP in September has shown that the region is not as rich in oil as many firms expected.

BP said when it announced the find that recoverable reserves could be about 2,000bn cubic feet, enough to generate electricity for the southern industrial centre of Ho Chi Minh City for 25 years at current levels of consumption.

"The fact that the Nam Con Son Basin is more gas prone than was first thought has become clearer and it could yield more gas discoveries," said Michael Yeldham, BP chief executive in Vietnam.

Vietnam plans to pump 7.1m tonnes of crude this year, up from 6.3m in 1993. Most of it comes from the Bach Ho (White Tiger) field, operated by the Russo-Vietnamese joint venture VietSovPetro and which was the country's only producing field until Australian operator BHP started producing small amounts at the Dai Hung (Big Bear) field in October. BHP hopes to have tapped 250,000 to 350,000 tonnes by year's end.

Nearly all the crude is exported to Japan and is Vietnam's largest source of foreign currency revenue. However, these amounts are not enough to ensure Vietnam achieves targeted double digit economic growth by 2000. Hanoi is therefore keen to develop gas as fast as possible to increase foreign currency earnings and has charged the State Planning Committee with mapping out a master plan for the gas industry. Under a "fast track" programme, priority is being given to building the infrastructure needed to bring commercially viable amounts of gas onshore.

The first phase was the installation of Vietnam's first gas pipeline early this year by Korea's Hyundai Heavy Engineering. The 107km undersea pipeline runs from the Bach Ho oilfield and is designed to tap gas being flared off at a rate of 3m cubic feet a day. Test flows, due to start in November, were delayed because of an accident which damaged the pipe.

The second phase involves the construction of an offshore compression platform and a liquefied petroleum gas plant on the coast near Vung Tau. British Gas and Mitsui last month finished work on a feasibility study for the $450m project.

Industry sources say the speed at which Vietnam can develop its energy sector will depend on financing. Although the technical aspects of the British Gas study are clear, industry sources say there are doubts about how the second phase of the project, and any others, will attract project financing without government support. Vietnam's sovereign debt risk is still high and there is no precedent for large-scale financing. Projects would have to demonstrate sufficient foreign exchange revenues to justify any financing.

"The gas that comes ashore will be two and a half times as expensive as [that in] Indonesia or the Middle East because of the infrastructure needed to bring it ashore," said Marie Belsey, British Gas Vietnam country manager.

BP told the communist party daily Nhan Dan that it and its partners could spend as much as $1bn building production facilities offshore and an undersea pipeline to make use of the gas in Block Six, where it found gas. Up to a further $1bn could be needed to develop a market for the gas onshore, it said.

Although Vietnam needs the gas domestically for power generation and fertiliser production, the government is also keen to export as much as possible, possibly to Thailand, which is known to be looking at further import sources.

However, Hanoi will probably have to wait until next year to see how much gas is offshore. US firm Mobil, returning to Vietnam after a 19-year absence, is testing for gas at the Thanh Long (Blue Dragon) field but with no luck so far.

Foreign firms say government planning will be crucial to successful exploitation of the country's gas. Late last month Vo Van Kiet, the prime minister, decided PetroVietnam should carry out a feasibility study looking into building Vietnam's first oil refinery in the poor province of Quang Ngai in the country's central region. The province, 525km north-east of Ho Chi Minh City, is hundreds of miles away from the offshore oilfields.

Foreign oil firms were puzzled. A consortium of France's Total and Taiwanese partners had been working on a feasibility study, commissioned by state oil agency PetroVietnam, for a $1bn plant near Khanh Hoa, close to the oil industry hub of Vung Tau.

The issue underlines the difficulty foreign firms prospecting for oil and gas sometimes have in gauging whether commercial priorities take precedence over political considerations as Hanoi decides how best to harness the country's energy resources.

The country is also spending huge sums importing refined crude to fuel industrial growth and desperately needs its own refining capacity. PetroVietnam officials hope that as much as a third of the 6m tonnes of crude to be refined at the planned Quang Ngai plant will be shipped from Indonesia or the Middle East.

But Danang, the nearest port, is too small to accommodate the kind of traffic anticipated and is not linked to major shipping lanes. Transporting the country's own crude northwards to the refinery from offshore fields off the southern coast of Vung Tau will add further costs.

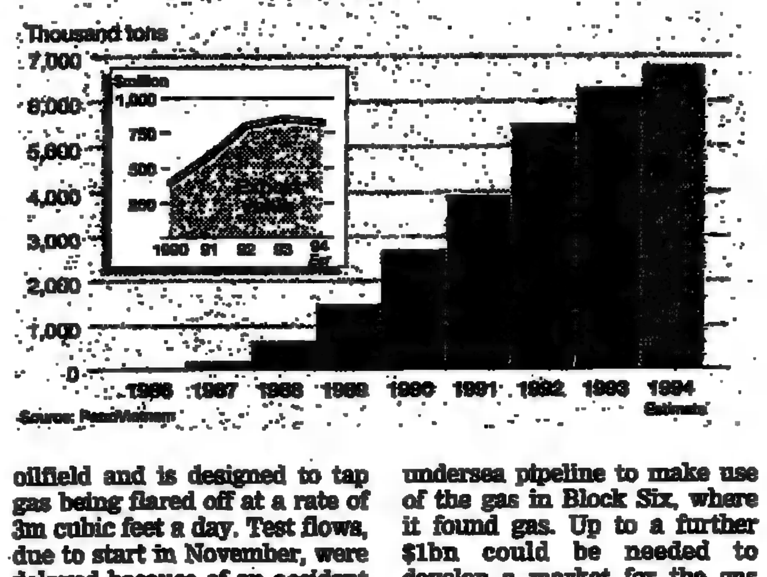
Meanwhile, bids have just closed on a promising oil block in the Mekong basin, closer to Vietnam's coast than the Nam Con Son basin and next to blocks with modestly encouraging finds by Japanese and Malaysian firms in June.

"The game's by no means over yet," said BP's Mr Yeldham. "There's still a lot of competition and the shakeout has yet to occur.

"We're not at the stage where you can say there are obvious winners and losers."

Paul Gauntlett

Bach Ho (White Tiger) production



Source: PetroVietnam

Lack of infrastructure is constraining tourism, says **Kieran Cooke**

Big money yet to be seen

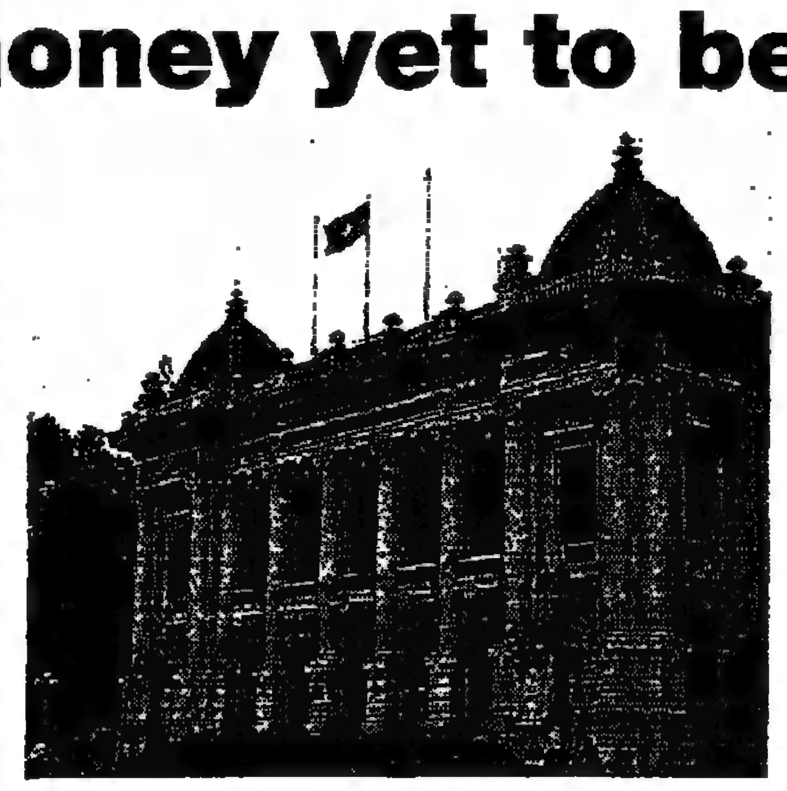
In the early 1970s Bui Xuan Nhat was a key figure in the Paris negotiations aimed at ending the war in Vietnam and putting a stop to US involvement in the country. Twenty years on, Mr Nhat, a former diplomat, now deputy chairman of Vietnam's tourist authority, is trying to woo Americans back to explore the beauties of his country and revisit old battlefields.

"We think the US is a very big market for our tourism industry," says Mr Nhat. "Hundreds of thousands of American troops were here. Many of them want to come back and see where they fought."

Already there are special tours for American war veterans, with visits organised to battle sites such as Khe Sanh and along the Ho Chi Minh trail. Vets can see some of the mountain of US weaponry left behind when Vietnamese forces finally took control of Ho Chi Minh City in 1975. They can even buy back some of their old kit from souvenir shops at the city's war crimes museum.

But the US tourist assault on Vietnam has yet to take place. The French, in the country long before the Americans, are back in large numbers. Vietnam has become the latest vogue tourist spot for many other Europeans. Numbers are rising fast: according to official statistics Vietnam had 250,000 tourists in 1990. This rose to more than 650,000 in 1993 and forecasts for this year predict at least 900,000 visitors.

"We aim to have more than three million tourists by the end of the century," says Mr Nhat. "Tourism will make a big contribution to our foreign exchange earnings. There are some problems in the industry but we are confident they can be overcome."



Hanoi's French-built opera house: one of the attractions of the capital is its old style colonial architecture, yet unregulated property development could destroy the very thing visitors want to see — Sarah Murray

Hotel development: proposed new rooms

Destination	By 2000
Ho Chi Minh City	10,000
Hanoi	6,771
Vung Tau	728
Haiphong	90
Danang	2,478
Dalat	182
Phan Rang	117
Hue	250
Nha Trang	1,328
Total	21,944

Source: BDO Hospitality Consulting

Some might feel Mr Nhat is being overly optimistic. For the moment, Vietnam is an excellent destination for the more adventurous type of traveller. But the real tourist revenues come from big tour packages, not from small groups of intrepid explorers.

Vietnam's chronic lack of infrastructure – from paved roads to power and drinkable water – is a serious constraint on any large scale development of the tourism sector. Tourist facilities outside the main cities are virtually non-existent.

There is already a serious shortage of hotel accommodation in both Ho Chi Minh City and Hanoi. People are hungry for jobs. But the country lacks a pool of trained hotel staff. Hotel operators have to build up their businesses from scratch.

A standard room in Hanoi's leading hotel costs nearly $200 per night. Top class hotels in other parts of Asia offer both better rates and service.

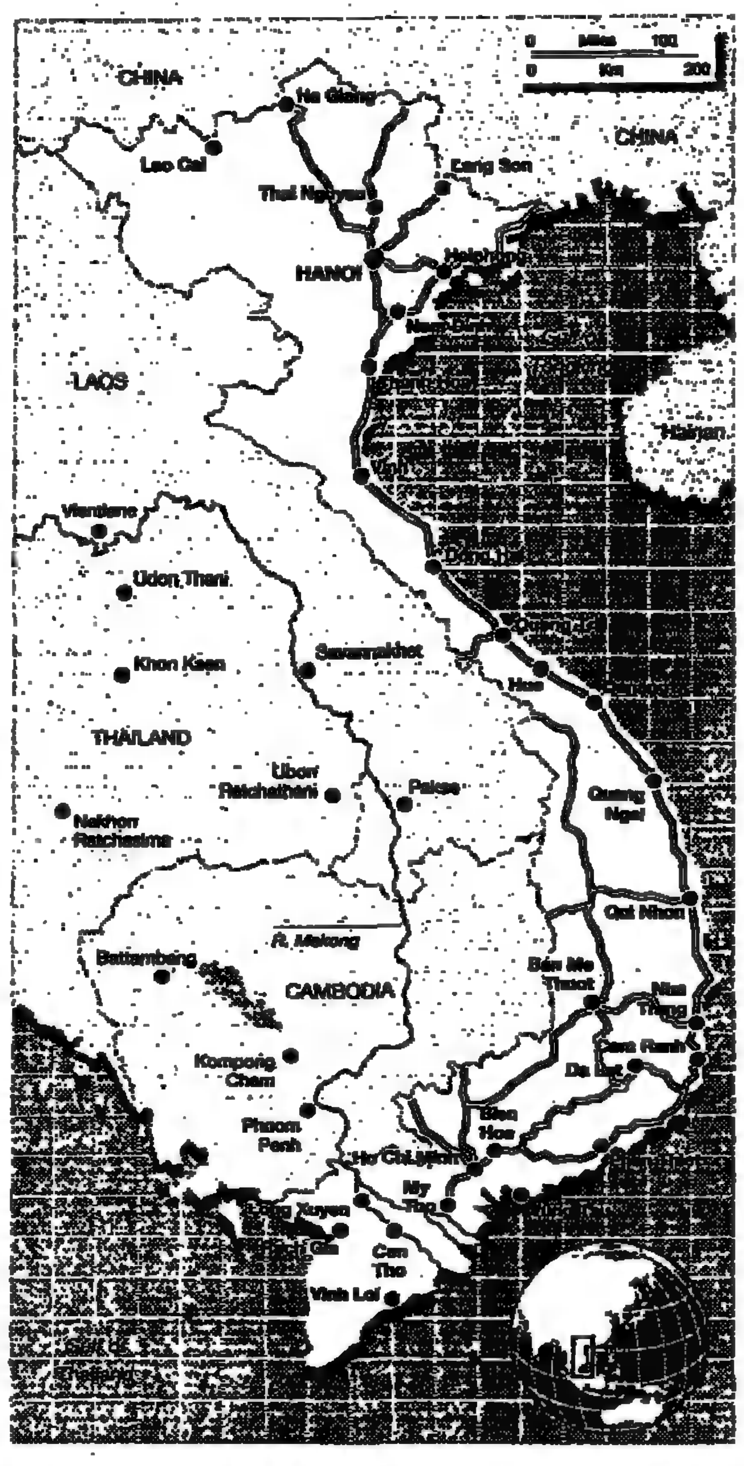
Officials say that Vietnam now has a total of 32,000 hotel rooms, with only half of them considered fit for foreign tourists. New hotels are being built. A US group has plans for a $240m tourist complex on the coast near Danang in central Vietnam. Foreign investors, led by Singaporeans and Malaysians, are queueing up to build hotels in Ho Chi Minh City and Hanoi.

Progress on these projects is slow. More than 100 foreign-funded tourist projects involving investments of more than $1bn have been registered with the authorities but few have progressed from the paperwork stage.

As in many sectors of Vietnam's economic planning, developers have found that official central government policy is often at variance with the views of politically powerful local Peoples Committees. Establishing land titles, moving people from development areas plus settling compensation claims have proved serious obstacles for tourism-related projects.

Mr Nhat is aware of the bureaucratic hold-ups in the system. But there is also the danger that by allowing a haphazard, unregulated approach to tourism, Vietnam might risk destroying the very things visitors want to see. One of the attractions of Hanoi is its old style French colonial architecture and its tree lined boulevards. Many of the old villas are crumbling and in dire need of repair. But unregulated property development, including a mushrooming of small, often ugly, hotels with modern facades, is already threatening to spoil the look of parts of Vietnam's capital.

Mr Nhat says that he does not want to see Vietnam developing the same sort of tourist industry as that of Thailand. Yet signs are already emerging that Ho Chi Minh City is reverting to its old ways with a recent proliferation of massage parlours and risqué bars.



Vietnam might not be able to keep the bulk of its tourist earnings within the country. Every sector of the economy lacks capital. Foreign tour operators, having invested funds in order to set up various facilities in Vietnam, could insist that they retain a sizeable slice of the revenues.

"We have no choice," says Mr Nhat. "We have to seek partnerships with foreign companies, not only to use their capital resources but also to learn the industry from them. We are just starting. I hope we can learn from the experience and mistakes of others."

Kieran Cooke finds starting a private business is still not easy

Capital the crucial element

Le Van Kiem sits at his desk in his office in Ho Chi Minh City, a large diamond ring glinting on his finger. "I describe myself as a socialist capitalist," says Mr Kiem with a smile. "I believe the two are not necessarily contradictory. People sometimes say the rich do not work. Now I'm in charge of a big business and yes, I have money. But I have never worked harder in my life."

Mr Kiem is founder of Huy Hoang, one of Vietnam's largest private groups. The private sector has only emerged in Vietnam in the past few years with much of the activity centred on Ho Chi Minh City. In 1988 there were only 22 private sector enterprises in the city. Now there are more than 2,000.

The Huy Hoang group employs more than 3,000 people, most of them at a garment factory on the outskirts of Ho Chi Minh City. It is also involved in the construction industry, real estate and tourism development.

Founded in 1990, Huy Hoang's turnover has grown from $5m to more than $40m this year. When Vietnam's stock exchange gets off the ground – possibly next year in Ho Chi Minh City – Mr Kiem says a listing of at least part of the group is likely.

"We have ambitions of turning Huy Hoang into a company involved in most sectors of the economy," says Mr Kiem. "Vietnam needs companies like ours, to provide jobs and to develop skills. Perhaps our workers will one day start their own businesses."

Getting a private company started in Vietnam is not easy. While the country's leadership heartily endorses the concept of the market economy, lingering distrust within the bureaucracy of the entrepreneur and the capitalist often results in contradictory regulations and delays in winning project approvals.

However, shortage of capital is the greatest handicap for the private sector. Most private businesses have a large quantity of foreign sourced capital behind them. Mr Kiem was able to start his company using savings he had made from a home-based paint business in the 1980s and money sent by relatives in the US.

Bitis, another large Vietnamese company involved mainly in the shoe manufacturing business, is run by the family of Vuu Khai Thanh. Mr Thanh is a Chinese Vietnamese. Vietnam's Chinese community, numbering about 500,000 and mostly centred on Ho Chi Minh City, has the advantage of being able to call up capital from relatives in Bangkok, Kuala Lumpur or Taiwan.

Bitis, now in a joint venture with a Taiwanese group, makes about 12m pairs of low-cost sandals and shoes each year. At a factory on the outskirts of Ho Chi Minh City 1,800 workers earning about $40 per month glue shoe materials together. The smell is overpowering. About 80 per cent of materials are imported – mostly from Taiwan.

A large slice of Bitis' production goes for export to Japan and China. However, the company is selling increasing amounts of its slippers, priced at about $2 a pair, on the home market.

Mr Kiem of Huy Hoang admits that Vietnam's industrial sector is still undeveloped. About 80 per cent of the materials for Huy Hoang's garments have to be imported.

Garment companies in Europe have signed long-term production contracts with Huy Hoang. They have also advanced the company capital for expansion.

"Raising the initial capital is the big problem for Vietnamese enterprises," says Mr Kiem.

"I think the Vietnamese are skilful and have a talent for business. Some have capital, a lot of it hidden under the bed, but are frightened to take risks. I was one of the first. I'm sure others will follow."

Doing business is a costly affair

Although Vietnam is making progress towards ironing out the wrinkles in the country's legal system and improving its tangled bureaucracy, the cost of getting established and doing business, already alarmingly high, is rising fast.

Basic overheads are among the highest in the world and commercial rents in the capital, Hanoi, and in the bustling southern industrial hub of Ho Chi Minh City have already overtaken those of some of the world's leading cities. Residential rates are not far behind.

While prime office rents are officially capped at about $18 per square metre per month in Ho Chi Minh City foreign businesses hunting for what little international-standard space is available are often asked for as much as $50-$60.

Making phone calls abroad is almost prohibitively expensive and resident business people advise newcomers to get their headquarters to call them back to save money. A severe shortage of trained personnel, even those with the most basic office skills, is nudging local salaries higher. Poaching of qualified staff is rife.

A young local graduate with some work experience and good English – firmly established as the lingua franca of business – can command a monthly salary of up to $400, almost double the figure in 1993. Unaware of how fast costs are rising, many foreign investors fail to make allowances in their feasibility studies and find themselves drastically revising budgets or even pulling out of projects.

This partly explains why only about a quarter of the roughly $10bn in foreign investment pledged so far has actually been invested.

"It's fairly easy to get a joint venture going but it's the implementation that's the problem," says an Australian lawyer with seven years of experience advising clients on start-ups in Vietnam. "People should double their estimates of administrative costs, for example."

In spite of a much-trumpeted government campaign against corruption, incidents of graft are on the rise. In property, for example, even once suitable premises have been found for representative offices, investors often find themselves having to pay unofficial "fees" to secure the site.

One leading European bank early this year was told there was a $200,000 price tag on a prestigious, French-era villa in Ho Chi Minh City and drafted a contract on that basis. Shortly after the US lifted its trade embargo on Vietnam in February, bank executives negotiating the deal were told the price had risen to $250,000. They assumed the contract would be re-drafted but were shocked to find that the official negotiating the deal would only accept the difference in cash, payable on the spot.

Residential space, also in short supply, is best sourced through one of the few official state agencies (which charge hefty fees) or by contacting the numerous private "agents", who can often be little more than well connected individuals. Many will also demand high fees.

For property developers, one headache is how to gauge compensation to be paid to people living on land designated for development. Officially-set rates are usually ignored, by the Vietnamese partner or by residents facing relocation. Project delays can be severe as the two sides in the joint venture wrangle over how much should be paid.

"I think the government is trying to do its best to solve the problems but on a day to day basis you've got people grabbing what they can," says the director of a US property firm planning to develop a hotel in Hanoi. His joint venture partner has asked him for $1.5m to build a road nearby as well as a $250,000 "lobby fee", apparently to be used to speed up licensing procedures.

Although the government is acutely aware of the need to streamline the bureaucracy and plans a vigorous campaign of what it calls "administrative reform" in 1995, the project licensing procedure is still clogged with unnecessary paperwork.

The State Committee for Co-operation and Investment is responsible for licensing all forms of foreign investment, usually a joint venture, a 100 per cent foreign-invested enterprise or the looser Business Co-operation Contract. Although it was planned as a "one-stop" shop for foreign investors, more than 10 ministries claim jurisdiction on some aspects of foreign investment and much time is spent shepherding paperwork from ministry to ministry. Many businesses save time and money by hiring foreign consultants on the ground to ease applications through the system.

But today's business climate is still in stark contrast to when the country first started opening up to foreign investors as part of its policy of *doi moi*. Vietnam's only telephone links with the outside world in 1986 were nine, scratchy, international lines, most of them connecting Hanoi with Moscow, then the country's main benefactor. Today, 1,500 lines offer clear connections to almost anywhere in the world. Mobile phones are common in Saigon and have recently appeared in Hanoi.

Regular domestic flights, most using European Airbus aircraft, connect the capital with Ho Chi Minh City, the coastal town of Danang and other destinations.

The legal environment, although still murky, has improved slowly but steadily. This year has seen a surge in the amount of regulations issued, most of them aimed at clarifying aspects of the Foreign Investment Law.

Among them, a radical ruling dating back to July allows foreigners to buy property in their own right. Property analysts say the move has put Vietnam ahead of jurisdictions in Thailand and even Singapore, where foreigners are limited to ownership of certain floors of a building.

Another decree, passed in March, sets out guidelines for settling economic disputes involving foreign investors at a special economic court. However, foreign lawyers based in Vietnam say most investors will prefer to seek remedies offshore until the precise mechanics of the court are clearer.

Foreign investors complain that inadequate consultation at the drafting stage means laws are often incomplete, requiring clarification later through the issuance of guidelines.

Recent currency regulations outlawing the use of the dollar in domestic transactions, for example, leave open the question of whether sectors that rely on foreign currency revenues to repay debts offshore (such as hotels) have to receive income in the local, non-convertible currency.

Paul Gauntlett

Fact file

President: Le Duc Anh
Prime Minister: Vo Van Kiet
Population: 72m
Area: 330,341 sq km

■ Economic indicators

	1993	1994e
Real GDP growth (%)	8.1	8.8
Sectoral share of GDP (%)		
Agriculture	36	n/a
Industry	26	n/a
Services	38	n/a
Inflation (%)	5.2	12.0
Budget expenditure (% GDP)	18.8	18.8
Budget deficit (% GDP)	-6.2	-2.7
Merchandise exports ($bn)	2.8	3.6
Merchandise imports ($bn)	3.5	4.0
Current account balance ($m)	-869	n/a
Total external debt ($bn)	17.7	19.6
Debt service ratio (% of exports)	28.5	12.0

Sources: World Bank, Vietnam government, UN, ADB

■ Getting there

Air France, Lufthansa and the Dutch airline KLM fly routes from Europe. British Airways plans to start flights from London in mid-1995. Otherwise most Asian carriers have services to and from their capitals and Qantas runs one flight a week from Sydney. No direct flights run to and from the US, however. A handful of US airlines are waiting for commercial flight agreements to be worked out between the two countries. Business visas are needed for extended business trips but first-time visitors investigating opportunities can get by on a tourist visa.

■ Currency

Sweeping new rules issued in October theoretically banned the use of the dollar in Vietnam for most transactions. But bring sufficient dollars in cash for purchases or for exchange into dong, although many exchange bureaux will not accept old or worn notes. Most leading hotels accept credit cards and traveller's cheques.

■ Information

Economic and business news about Vietnam may be patchy outside the country but in the country it is difficult to escape. Many English language publications are produced in Vietnam, the most useful being the weekly Vietnam Investment Review, published by the SCCI (investment news) and the monthly Vietnam Economic Times (analysis and business tips). The local English-language directory enquiries telephone number is 108.

■ Where to stay

● **Hanoi.** While it is relatively easy to book accommodation in Ho Chi Minh City, a severe shortage in Hanoi often means a frustrating search for rooms. The Metropole Hotel (tel: 84-4-266919, fax: 266920, $179-$394 a night) is running at 95 per cent occupancy and rooms are scarce. Try smaller hotels such as the Army Hotel (tel: 252896, fax: 259276, $50-$75 a night) and the Defence Ministry Guest House (tel: 265540, fax: 265539, $60-$150 a night). If you are really stuck, the "mini-hotels" that have sprung up in the past year are perfectly respectable (Melody Hotel, tel: 263029, fax: 243746, Thuy Lam Hotel, tel:/fax: 250468).

● **Ho Chi Minh City.** Leading hotels include the Omni Saigon (tel: 84-8-449222, fax: 449200) and the vast, 540-room New World Saigon (tel: 228888, fax: 230710) and the Rex Hotel (tel: 296043, fax: 290536), famous for its rooftop bar. The Floating Hotel (tel: 290783, fax: 290784), a renovated barge with international standard rooms, is moored on the Saigon River at Nguyen Hue Boulevard but may have to move next year if its licence is not renewed.

● **Danang.** Standards in Danang, on the central coast, have yet to catch up with the north and south. The Bach Dang Hotel, (tel: 84-51-23649, fax: 21659) is fine. Do not miss fish and chips at Christie's Waterfront bar just down the road, run by New Zealander Bob Christie and his Vietnamese wife.

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LONDON STOCK EXCHANGE

MARKET REPORT

Equity market struggles after interest rate rise

By Steve Thompson

The UK equity market successfully rode out potentially one of the most turbulent trading sessions in recent months, in spite of a major defeat of the government in the House of Commons, a rise of ½ percentage point in domestic interest rates, a £2bn gilts auction and a warning of possible further US interest rate increases in the short term.

One of the top dealers at a leading UK securities house described the trading session as "one of the most difficult for many months; all the big traders are reluctant to get involved in such awkward markets".

At the close of a dramatic day the FT-SE 100-share Index was down a mere 3.6 at 3,012.5. The FT-SE Mid 250 index moved in tandem, finishing 4.9 lower at 3,425.3.

But dealers were under no illusions about the market stability in the short term. Wall Street was swinging around during London trading hours, and was down almost 20 points 1½ hours after London closed.

Most of the drama occurred in the first two hours of trading. The Conservative government's defeat on Tuesday evening over the implementation of the second stage of VAT on domestic fuel was the trigger for a flurry of selling pressure in sterling, gilts and equities at the outset of trading.

The market's response was to mark down both gilts and stocks, albeit by smaller than expected amounts, to try to head off any large-scale selling. Meanwhile, the markets picked up the scent of a possible cut in UK interest rates to prevent a sell-off in sterling and encourage demand for the £2bn gilts auction.

As soon as the 50 basis-point rise in interest rates was known the equity market staged a dramatic reversal, racing ahead strongly in the wake of a gilts market that rallied from being down a half-point to up ¼.

The FT-SE 100, which was 13.0 lower at its worst, was transformed, accelerating to post a near 19 points rise in mid-morning. The markets, dealers said, were happy that the chancellor of the exchequer and the Governor of the Bank of England had moved so decisively to prevent a run on sterling and to choke off any build-up of inflationary pressures in the economy.

Thereafter the pace of market activity slackened and the 100-share index began to drift easier, with traders looking towards Wall Street for a lead. The US stock market's good showing overnight had given a boost to European markets early on. But with Wall Street coming under pressure at the opening, after comments on excessive growth in the US economy by Fed chairman Mr Alan Greenspan, the UK market fell back into negative territory.

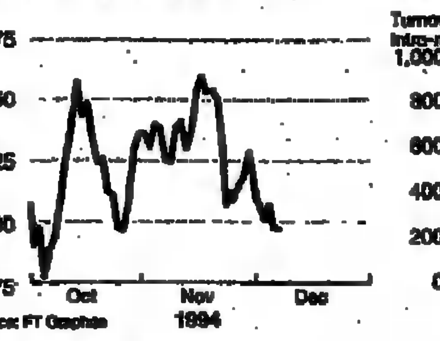
Marketmakers remained cautious about short term trends in equities ahead of news of the chancellor's new moves to provide for the £1.5bn Budget shortfall. Utilities were given a thorough shaking, and closed sharply lower amid worries that the sector may yet be the subject of a windfall profits tax.

Some strategists refused to be panicked by the rate rise. Mr Richard Jeffrey at Charterhouse Tilney, the stockbroker, said the rise had "cleared the air" and that he expected the market to move higher between now and the end of the year, as the gilts market leads people to look towards 1995.

There was general disappointment among brokers at the continuing low level of customer business. Turnover yesterday was a poor 596.7m shares, with non-Footsie stocks providing 58 per cent of the total.

The Office of Fair Trading produced the biggest shock of the day, recommending that the British Aerospace and GEC bids for VSEL, the submarine manufacturer, be referred to the Monopolies and Mergers Commission, a move that stunned the market. VSEL shares plummeted.

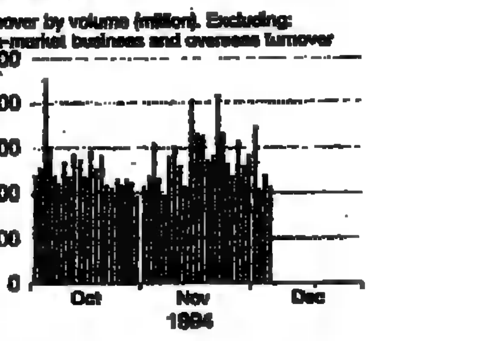
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: Intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	3012.5	-3.6	FT Ordinary index	2319.7	+1.4
FT-SE Mid 250	3425.3	-4.9	FT-SE-A Non Fins p/e	18.02	(18.05)
FT-SE-A 350	1509.1	-1.8	FT-SE 100 Fut Dec	3006.0	-16.0
FT-SE-A All-Share	1495.82	-1.90	10 yr Gilt yield	8.63	(8.67)
FT-SE-A All-Share yield	4.09	(4.09)	Long gilt/equity yld ratio:	2.12	(2.13)

Best performing sectors

1 Breweries ... +1.1
2 Telecommunications ... +1.0
3 Pharmaceuticals ... +0.5
4 Textiles & Apparel ... +0.4
5 Distributors ... +0.4

Worst performing sectors

1 Water ... -3.3
2 Electricity ... -2.3
3 Oil Exploration & Prod ... -0.9
4 Oil, Integrated ... -0.8
5 Utilities ... -0.8

VSEL sunk by OFT

Submarine maker VSEL went into a crash-dive following the decision by the Office of Fair Trading to refer the takeover bids from both GEC and British Aerospace to the Mergers and Monopolies Commission.

The early afternoon announcement stunned the stock market, which quickly marked VSEL down 200 to 1335p, against a high for the year of 1548p. BAe retreated 4 to 433p and GEC hardened 2½ to 275½p.

The OFT ruling led to widespread head scratching among analysts. Just about the only sensible conclusion was that the VSEL takeover situation is now firmly on hold until March 15 when the MMC is due to make its deliberations known.

There was very little trading in the shares of the three protagonists, with GEC and BAe notching up 3m turnover apiece and 1.2m VSEL shares changing hands. A big 12m volume in the BAe units mostly took place during the morning.

Most dealers were agreed that a potential bid of some description for VSEL was still in the wings, and that the submarine group's shares could well prove oversold. GEC's interim statement – due today – was eagerly awaited.

Woodrow active

Construction group Taylor Woodrow was the day's most actively traded stock, with the group instigating a big buy-back programme aimed at mopping up 10 per cent of its equity. Turnover of 58m shares suggested that by the close nearly 70 per cent of the repurchase target had been achieved.

The move pushed the shares 5 higher to 124p. Analysts saw potential follow ups by other building companies as unlikely. With limited borrowings and a big property portfolio – net rentals account for some two-thirds of group operating profits – Taylow Woodrow is seen as unique within the sector.

Worries over political instability in the wake of the government's House of Commons defeat on the VAT on fuel Bill hit utilities.

One suggestion was that the chancellor may instead opt for a special tax on the proceeds of the impending sale of the National grid, which is owned by the 12 generators. East Midlands fell 23 to 715p, Eastern surrendered 20 to 765p, National Power lost 17½ at 484p in trade of 5.9m and PowerGen shed 25½ to 512p.

South Wales was one of a handful of stocks in the sector that managed to resist the market trend after the excellent interim figures. The shares put on 9 at 778p. Bid speculation continued to boost Northern, which moved 4 higher to 860p.

Water stocks also came under pressure on worries that the government may reconsider a windfall tax on high dividend payments as an alternative source of revenue. Market watchers also pointed out that the latest increase in interest rates would render the sector less attractive to yield buyers. North West tumbled 23 to 497p.

Brewing and leisure group Bass forged ahead 15 to 517p, the day's sharpest rise among Footsie constituents, after full-year figures well ahead of expectations.

Profits increased by nearly 9 per cent to £552m, against a range of forecasts between £534m and £548m. The 21.1p dividend was also better than anticipated.

Brokers upgraded current year forecasts – Kleinwort Benson added £13m to its original estimate, lifting to £600m for the current year, and by £14m to £669m for 1996. Turnover in the shares rose to 3.2m, twice the daily average.

Barclays finished a penny lower at 599p after Hoare Govett reduced its 1994 profits forecast to £1.95bn from £2.05bn. The house said the cut reflected redemption of US loan capital, and slightly lower than expected turnover at the bank's BZW division. Dealers said Cazenove, one of the bank's brokers, had also changed its figures.

BT was the most active Footsie stock with 12m shares changing hands following the publication of Oftel's consultative paper on telecoms regulation. The shares rose 6 to 376p with Oftel's thinking seen as slightly more generous to BT than expected.

The document confirmed stockmarket hopes for sizeable cost savings at Cable & Wireless with its Mercury unit likely to face a lower contributions to BT's so-called access deficit.

C&W put on 2½ to 371p, but Vodafone, perceived as a marginal beneficiary from telecoms changes, dipped 2 to 192p in 6.1m turnover.

The latest rise in interest rates added further pressure to an already weakened retail sector. Retailing stocks have fallen sharply in recent sessions on nervousness about Christmas trading and analysts said the interest rate rise could only add to the gloom in the sector.

Kingfisher gave up 7 to 434p, and Dixons fell 3½ to 184p. MFI lost a penny to 129p. Boots gave up 4 to 481p. Goldman Sachs which turned negative on the sector at the begining of the week yesterday issued a note suggestting the shares were overvalued by 5 per cent.

Exploration and production groups Enterprise and Lasmo receded 5 to 381p and a penny to 143p as SGST reiterated its cautious view of the stocks following a meeting with its energy consultant. The oils team came away with their gloomy outlook for oil prices confirmed.

Oil major BP suffered from US selling and fell 3½ to 407p.

Carlton Communications jumped 16 to 868p after the shares responded to enthusiasm over the company's full-year figures.

The 50 per cent boost in profits to £190m was accompanied by what one specialist decribed as "a quantum shift to openness".

Mirror Group slipped 3 to 133p and Telegraph dropped 5 to 345p on concern that the government might introduce VAT on newspapers following its defeat over increasing the tax on fuel.

Media conglomerate Pearson improved 3 to 586p as the market began to focus on prospects for BSkyB, in which Pearson has a significant stake. Analysts expect that the shares will be priced initially at above 250p when conditional trading begins today, giving a capitalisation of around £4.3bn.

The possibility that De La Rue, the bank note printer, would make an agreed bid of around 900p a share for Portals, the security and specialist paper maker, saw Portals jump 45 to 816p.

Nevertheless analysts argue that even around the 900p level a bid would not be dilutive and De La Rue shares recovered 4 to 967p.

Car parts group Avon Rubber tumbled 26 to 494p following weak full-year profits.

MARKET REPORTERS:
Peter John, Joel Kibazo, Jeffrey Brown.

■ Other statistics, Page 21

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (13).
BUILDING & CNSTRN (1) Andrews Sykes, ELECTRICITY (1) Northern, ENGINEERING (2) Lucas, Turnpyke, INVESTMENT TRUSTS (1) Somit, MEDIA (1) Metal Bulletin, OTHER SERVS & BUSNS (1) Eadam, PRTNG, PAPER & PACKG (1) Portals, PROPERTY (2) Artesian Ests., Freeport Leis., SUPPORT SERVS (2) Computer People, MMT Computing, TRANSPORT (1) Stagecoach.

NEW LOWS (132).
GILTS (7) BREWERIES (2) Young Brew A, Do N/V, BUILDING & CNSTRN (8) Bellway, CALA, Countryside Props., Eve Group, McAlpine (A), Persimmon, Redrow, Wilson(C), Wimpey (G), BLDG MATLS & MCHTS (6) Bardon, Blockleys, Pilkington Wmts., Redland, Tarmac, CHEMICALS (4) Engelhard, Hickson Int'l., Sutcliffe Speakman, Wardle Storeys, DISTRIBUTORS (1) Perry, DIVERSIFIED INDLS (4) Hanisons & Crosfield, Suter, Do Wnts., Trafalgar Hse. 6p Pf., ELECTRNC & ELECT EQUP (3) Channel, Gestetner, Siemens, ENGINEERING (7) EXTRACTIVE INDS (7) HEALTH CARE (2) Stataco Int'l., Scholl, HOUSEHOLD GOODS (1) Airsprung Furniture, INSURANCE (1) General Accident, INVESTMENT TRUSTS (27) INVESTMENT COMPANIES (6) LEISURE & HOTELS (1) Airtours 6¾p Cv Pf., LIFE ASSURANCE (2) London & Manchester, Refuge, MEDIA (2) Barbour Index, Sterling Publg., OTHER FINANCIAL (6) Exco, Oceana Consld., Sharelink, St. James's Place Cap., Swire Pacific, OTHER SERVS & BUSNS (1) Leigh Interests, PRTNG, PAPER & PACKG (2) API, Pittard, PROPERTY (14) RETAILERS, GENERAL (7) Alldays, Asprey, Boots, Brown & Jackson, Fine Art Devlps., Kingfisher, Rhino, SPIRITS, WINES & CIDERS (1) Merrydown, SUPPORT SERVS (2) OIS Int'l., Warner Howard, TEXTILES & APPAREL (2) Fil. Foster (J), TRANSPORT (3) WATER (3) South West, Wessex, AMERICANS (1) Dun & Bradstreet, CANADIANS (1) Hudson's Bay.

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures had another volatile day, with early gains eradicated in later trading as Wall Street opened lower, *writes Jeffrey Brown.*

The FT-SE 100 December contract stood at 3,007 at the close of pit trading, down 15 points for a two-day decline of 34 points, wiping out nearly the whole of Monday's strong rise.

At the official 4.10pm close there was a discount to the cash market of almost five points. For fair value the December contract needs to stand at a two-point premium.

Trading was again average at best, with 17,453 lots traded, but within this total more than 5,000 were spread trading as investors rolled over into the March contract.

The session started strongly, with a steady premium to the cash market building to around five points. But there was never any real attempt to lead cash equities upwards and when Wall Street opened the mood turned sour.

The premium to cash equities was quickly replaced by a discount, and having touched a day's best of 3,047 during the morning, December was down to 3,002 at one time just before pit trading ended.

Traded option volume was also slow, falling from Tuesday's 43,188 lots to 33,407. FT-SE and Euro FT-SE business was some 22,000 lots. National Power was the most active stock option, with 973 contracts dealt.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	43259
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	21066
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	825

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3012) £10 per full index point

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
SR†	1,300	334½	-2
ASDA Group†	4,200	65¼	+1¼
Abbey National†	1,500	413	-2
Albert Fisher	1,600	46	-2
Allied Domecq†	1,100	644	+6
Anglian Water	3,100	475	-14
Argos	147	337½	+1½
Argyll Group†	2,700	247½	-4½

FT - SE Actuaries Share Indices — The UK Series

	Dec 7	Day's chge%	Dec 6	Dec 5	Dec 2	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3012.5	-0.1	3015.1	3033.5	3017.3	3277.4	4.28	7.36	16.05	118.98	1146.09
FT-SE Mid 250	3425.3	-0.1	3430.2	3458.3	3459.9	3590.0	3.70	6.02	19.99	127.78	1285.88

■ FT-SE Actuaries All-Share

■ Hourly movements

■ FT-SE Actuaries 350 Industry baskets

LONDON EQUITIES

LIFFE EQUITY OPTIONS

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Allied Domecq	500	48½	60½	67½	1½	6½	11½

Option		Calls Feb	Calls May	Calls Aug	Puts Feb	Puts May	Puts Aug
Hanson	220	19	22	24	2½	6½	9½
(*237)	240	7	11	14	11½	15½	19

FT GOLD MINES INDEX

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	23	31	16
Other Fixed Interest	0	0	14
Mineral Extraction	49	59	88
General Manufacturers	104	143	381
Consumer Goods	39	49	98
Services	83	93	315
Utilities	10	23	10
Financials	46	133	185
Investment Trusts	25	141	299
Others	19	58	40
Totals	398	730	1446

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	December 5	Expiry	March 9
Last Dealings	December 16	Settlement	March 23

Calls: BTR Wrts.'98, Lister, NFC, Seafield Res., Signet, Tadpole Tech., Turnpyke, Puts & Calls: Air London, Alvis

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994 High	1994 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
150	F.P.	81.0	151	145	Ashbourne	151		WN3.0	3.1	2.5	13.9

RIGHTS OFFERS

FINANCIAL TIMES EQUITY INDICES

LONDON SHARE SERVICE

BANKS

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

OIL EXPLORATION & PRODUCTION - Cont.

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

	Notes	Price	+ or -	1994 High	1994 low	Mkt Cap£m	Yld Gr's	P/E
TVX Gold	♥	411½p	+15½	496½p	338½p	651.9	–	
Toronto-Dom		9⅝	-⅛	11⅛	9¼	2,877	4.9	
Trans Can Pipe	♥	7⅝	-⅛	10⅝	7⅝	1,487	4.9	

SOUTH AFRICANS

	Notes	Price	+ or -	1994 High	1994 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£24	—	£26	£13½	2,217	2.2	24.9
Barlow	♣	15⅞	+⅛	15⅞	13⅜	1,088	1.9	♦
Gold Flds Prop R		118xq	—	128	75	12.1	7.9	♦
MK Props		95	—	98	85	3.92	12.7	–
SASOL	♥	498	—	592	280	2,814	2.9	–
SA Brews	†	£14⅞xd	-⅛	£16⅞	£10	4,157	2.0	23.2
Tiger Oats		750	—	838	538	1,128	2.0	♦
Tongaat-Hulett	†b	722xc	—	*725	358½	698.8	2.0	21.0

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols relating to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited

... yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
... pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for
... yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xl ex capital distribution.

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT2918. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to availability.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, international) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

CURRENCIES AND MONEY

MARKETS REPORT

Pound firms as base rate rises to 6.25 per cent

Sterling gained ground on the foreign exchanges yesterday after the UK base rate was raised to 6.25 per cent, from 5.75 per cent, *writes Philip Gawith.*

The Bank of England's decision to raise rates, announced before 10am, took the market by surprise. While a minority of analysts had predicted that rates would rise this month, there had been little expectation of an announcement before today.

The early move would appear to be the result of the Treasury and the Bank of England wanting to calm markets, following the government's defeat in parliament the night before on a VAT vote.

Analysts agreed that sterling should benefit from another pre-emptive rise in interest rates, but said political uncertainty would continue to cap its gains.

The pound closed in London at DM2.4576, up from DM2.45 before the rate announcement. Against the dollar it finished at $1.5644, down from an earlier high around $1.5685, as the dollar strengthened in afternoon trading.

Elsewhere, the dollar staged a strong recovery after congressional testimony from Mr Alan Greenspan, chairman of the Federal Reserve, raised expectations of another rise in US interest rates. The dollar had earlier fallen below Y100 as the bankruptcy of Orange County, California unsettled investors.

The dollar closed in London at DM1.571, around half a pfennig up on an earlier low of DM1.5647. Against the yen it finished at Y100.15, up from a low of Y99.70.

Ahead of today's Bundesbank council meeting, a Reuters poll of 20 City economists found none of them expecting official interest rates to be cut. Sixty per cent of them believe there will be no further cut in German rates.

■ The measure of the market's approval of the rise in UK rates could be found in the behaviour of the short sterling futures contracts. The general message, over all maturities, was that the market believed UK short term interest rates would now have less to rise than had been anticipated before this latest move.

Volumes in the futures markets were heavy, with the March contract trading around 71,000 lots, to finish at 92.56, up from 92.50 on Tuesday, and a low for the day of 92.40.

One money market source said he now doubted whether rates would be moved again before February at the earliest. He predicted a slow-down in the economy during the first quarter of 1995. He said the levels of rates being discounted in the futures market – 7.4 per cent in March 1995, 8.8 per cent by December 1995 – were "ludicrous".

As regards sterling, Mr Avinash Persaud, currency strategist at JP Morgan in London, said political uncertainty could depress the currency in the short term. After that, though, the monetary tightening would be seen "ultimately, as a bold gesture, designed to keep inflation at bay and likely to bring credibility to UK policy, if not its politicians."

Mr Persaud said high real interest rates could push sterling to DM2.50 in the next three months.

Mr Jonathan Griggs, economic adviser at Barclays in London, said the base rate rise was a "significant boost for sterling". While political uncertainty remained a problem, he said the pound would benefit from the authorities having removed any doubt about the monetary policy outlook.

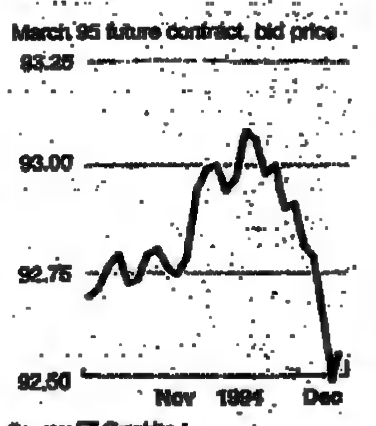
■ The combination of Mr Greenspan, and the release of the Fed's beige book, was enough to perk up the dollar. Mr Jeremy Hawkins, chief economist at the Bank of America in London, said they "greatly increase the chances of a tightening at the December 20 FOMC."

Mr Persaud said the spate of recent stories, indicating weakness in the US financial sector, could undermine the dollar. If the Fed took financial sector weakness as a reason not to raise rates, "that would be a very dangerous cocktail for the foreign exchange market," said Mr Persaud.

■ In its daily operations, the Bank of England provided late assistance to UK money markets of £170m, after forecasting a £950m shortage. Earlier it had provided £573m assistance at the new rate of 6¼ per cent, where bills were purchased outright, and 6$\frac{5}{16}$ per cent where bills were for resale to the market. Three month LIBOR was unchanged at 6$\frac{7}{16}$ per cent.

Sterling

March 95 future contract, bid price



Source: FT Graphite

■ Pound in New York

Dec 7	Latest	Prev. close
£ spot	1.5645	1.5622
1 mth	1.5644	1.5625
3 mth	1.5642	1.5620
1 yr	1.5619	1.5592

■ OTHER CURRENCIES

Dec 7	£	$
Hungary	173.458 - 173.881	110.900 - 111.000
Iran	2737.80 - 2741.00	1748.00 - 1750.00
Kuwait	0.4688 - 0.4702	0.2997 - 0.3005
Poland	37874.6 - 37920.5	24214.0 - 24235.0
Russia	5171.90 - 5178.60	3306.00 - 3309.00
U.A.E.	5.7343 - 5.7458	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Dec 7		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2389	-0.0841	317 - 461	17.3296	17.2233	17.2251	1.0	17.1845	1.3	-	-	115.2
Belgium	(BFr)	50.4995	-0.0393	578 - 210	50.5940	50.3120	50.4495	1.0	50.3546	1.1	49.7195	1.5	116.9
Denmark	(DKr)	9.6281	+0.008	239 - 323	9.6369	9.5756	9.63	-0.2	9.6213	0.3	9.5815	0.5	116.6
Finland	(FM)	7.6093	-0.027	000 - 185	7.6450	7.5910	-	-	-	-	-	-	87.4
France	(FFr)	8.4446	+0.0053	414 - 478	8.4609	8.4043	8.4402	0.6	8.4298	0.7	8.3456	1.2	109.8

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 7		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	11.0195	-0.0505	170 - 220	11.0675	11.0210	11.012	0.8	10.9955	0.9	10.898	1.1	104.4
Belgium	(BFr)	32.2740	-0.053	600 - 880	32.3700	32.2020	32.2485	0.9	32.184	1.1	31.829	1.4	105.9
Denmark	(DKr)	6.1545	-0.0002	530 - 560	6.1560	6.1284	6.1518	0.5	6.1555	-0.1	6.1445	0.2	105.2
Finland	(FM)	4.8640	-0.0215	590 - 690	4.8912	4.8556	4.8583	1.2	4.8545	0.8	4.8425	0.4	81.7
France	(FFr)	5.3960	-0.0013	970 - 990	5.3990	5.3735	5.3947	0.7	5.3885	0.7	5.337	1.1	106.1

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.83	93.83	-0.04	93.88	93.82	671	7706
Mar	93.55	93.53	-0.02	93.58	93.50	1543	8886
Jun	93.13	93.13	-	93.18	93.08	499	4274
Sep	92.66	92.67	-0.01	92.70	92.64	321	2647

* LIFFE futures traded on APT

PERSONAL

LEGAL NOTICES

Notice of appointment of Administrative Receiver

G Toms Limited. Registered number: 534633. Nature of business: Residential Establishments/Construction Specialists. Trade classification: 47

Heathlink Limited. Registered number: 1587941. Nature of business: Construction Specialists/Motor Services. Trade classification: 47.

Scaleson Limited. Registered number: 381487. Former Company name: Henry Scarsen Limited. Nature of business: Property Owning and Managing. Trade classification: 38.

Fingrey Properties Limited. Registered number: 2422744. Nature of business: Construction Specialists. Trade classification: 23.

Date of appointment of administrative receivers: 25 November 1994. Name of person appointing the administrative receivers: National Westminster Bank Plc. Appointees: Nigel Vooght and Timothy Richard Harris, Joint Administrative Receivers (office holder Nos 6339 and 2129). Address: Coopers & Lybrand, Hillgate House, 26 Old Bailey, London EC4M 7PL.

NO: 006928 of 1994

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION

IN THE MATTER OF QUILIGOTTI PLC
-and-
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 30th November 1994 presented to Her Majesty's High Court of Justice for (i) the confirmation of the reduction of the capital of the above named Company from £6,512,000 to £3,250,000 and (ii) the reduction of the Share Premium Account of the Company from £2,573,380 to £956,366.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before Mr Registrar Buckley at The Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 21st day of December 1994.

ANY creditor or shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the under mentioned solicitors on payment of the regulated charge for the same.

DATED this 30th day of November 1994

Gouldens of 22 Tudor Street, London, EC4Y 0JJ

Solicitors for the above named Company

(tel: 071-583 7777).

ref: RK/(461)/992366/28.06.94

COMPANY NOTICES

GENERAL MOTORS CORPORATION

NOTICE IS HEREBY GIVEN that resulting from the corporation's declaration of a dividend of $0.20 (gross) per share of the common stock of the corporation payable on the 10th Dec 1994 there will become due in respect of the bearer depositary receipts a gross distribution of 1.00 cent per unit. The depositary will give further notice of the sterling equivalent of the net distribution per unit payable on or after the 15th Dec 1994. All claims must be accompanied by a completed claim form and USA tax declaration obtainable from the depositary. Claimants other than UK banks and members of the Stock Exchange must lodge their bearer depositary receipts for marking. Postal claims cannot be accepted. The corporation's 3rd quarter 1994 report will be available upon application to the depositary named below:

Barclays Bank PLC
BOSS LONDON COUNTER SERVICES
8 Angel Court, London EC2R 7HT

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WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 7 / Sch)

BELGIUM/LUXEMBOURG (Dec 7 / Frs.)

DENMARK (Dec 7 / Kr)

FINLAND (Dec 7 / Mkk)

FRANCE (Dec 7 / Frs.)

GERMANY (Dec 7 / Dm.)

ITALY (Dec 7 / Lire)

NETHERLANDS (Dec 7 / Fls.)

NORWAY (Dec 7 / Kroner)

SPAIN (Dec 7 / Pts.)

SWEDEN (Dec 7 / Kronor)

SWITZERLAND (Dec 7 / Frs.)

PACIFIC

JAPAN (Dec 7 / Yen)

HONG KONG (Dec 7 / H.K.$)

MALAYSIA (Dec 7 / M/R)

SINGAPORE (Dec 7 / S$)

AUSTRALIA (Dec 7 / Aust$)

AFRICA

SOUTH AFRICA (Dec 7 / Rand)

NORTH AMERICA

CANADA

TORONTO (Dec 7 / Can $)
4 pm close

MONTREAL (Dec 7 / Can $)
4 pm close

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal [illegible]. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Wednesday, December 7, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
NKK	4.6m	278		Anritsu Elec	2.5m	1290	-30
Gunma Bank	4.4m	1100		Konica	2.5m	778	+5
Nippon Steel	3.2m	374	+1	Sanyo Electric	2.3m	578	-7
Hitachi	2.8m	977	-10	Matsushita	2.3m	1590	
Daiichi Kangyo	2.7m	1840	+10	Mitsubishi Hvy	2.2m	737	-13

INDICES

	Dec 7	Dec 6	Dec 5	1994 High		1994 Low	
Argentina							
General (29/12/77)	(u)	17619.90	17769.62	25470.49	16/2	16752.81	28/11
Australia							
All Ordinaries(1/1/80)	1869.2	1881.2	1887.5	2340.60	3/2	1857.10	23/11
All Mining(1/1/80)	915.2	931.2	943.6	1136.10	3/2	884.60	5/5
Austria							
Credit Aktien(30/12/84)	392.15	392.05	393.76	480.86	2/2	376.94	25/10
Traded Index(2/1/91)	1044.01	1044.62	1050.47	1222.25	1/2	1011.36	6/6
Belgium							
BEL20 (1/1/91)	1405.17	1408.34	1413.63	1649.65	9/2	1396.38	7/10
Brazil							
Bovespa (29/12/83)	(u)	45730.0	46314.0	55110.00	13/9	3600.90	3/1
Canada							
Metals Mins♦(1975)	(u)	4033.29	4055.08	4278.62	20/10	3299.86	20/4
Composite♦ (1975)	(u)	4079.44	4098.58	4608.90	23/3	3959.80	24/6
Portfolio§§ (4/1/83)	(u)	1983.15	1991.94	2182.68	1/2	1869.48	28/6
Chile							
IPGA Gen (31/12/80)	(u)	5583.4	5549.9	5754.40	21/11	3801.28	4/4
Denmark							
CopenhagenSE(3/1/83)	340.73	340.98	343.32	415.79	2/2	337.19	8/11
Finland							
HEX General(28/12/90)	1879.5	(c)	1881.5	1972.08	4/2	1601.10	3/1
France							
SBF 250 (31/12/90)	1298.32	1297.85	1302.63	1585.20	2/2	1227.86	25/10
CAC 40(31/12/87)	1969.84	1968.95	1973.85	2355.93	2/2	1924.42	25/10
Germany							
FAZ Aktien(31/12/58)	772.08	772.27	776.10	880.27	18/5	742.84	5/10
Commerzbank(1/12/53)	2201.1	2201.1	2216.6	2465.50	2/5	2116.30	5/10
DAX (30/12/87)‡	2055.60	2046.88	2071.12	2271.11	16/5	1960.59	7/10
Greece							
Athens SE(31/12/80)	874.74	873.34	871.56	1184.58	18/1	804.37	22/11
Hong Kong							
Hang Seng(31/7/64)	8268.50	8332.65	8302.53	12201.09	4/1	8221.56	2/12
India							
BSE Sens.(1979)	3978.39	4040.37	4064.23	4628.57	12/9	3454.80	5/1
Indonesia							
Jakarta Comp.(10/8/82)	462.33	466.39	470.59	612.89	5/1	449.72	12/7
Ireland							
ISEQ Overall(4/1/88)	1795.97	1798.05	1813.63	2082.18	20/1	1694.14	1/7
Italy							
Banca Comm. Ital (1972)	613.60	615.36	628.80	817.17	10/5	588.85	10/1
MIB General (4/1/94)	993.0	996.0	1020.0	1314.00	10/5	944.00	10/1
Japan							
Nikkei 225 (16/5/49)	19174.23	19340.47	19305.86	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	281.45	283.35	282.52	311.71	13/6	268.22	4/1
Topix (4/1/68)	1525.35	1535.40	1531.85	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2104.98	2106.72	2108.48	2542.85	6/7	1873.33	4/1
Malaysia							
KLSE Comp.(4/4/86)	951.66	953.66	963.88	1314.46	5/1	928.73	4/4
Mexico							
IPC (Nov 1978)	(u)	2514.36	2521.42	2881.17	8/2	1957.33	20/4
Netherlands							
CBS TtlRtnGen(End 83)	435.0	436.4	438.7	464.90	31/1	408.30	21/6
CBS All Shr (End 83)	272.9	273.8	275.2	294.80	31/1	257.90	21/6
New Zealand							
Cap. 40 (1/7/86)	1931.29	1941.45	1939.38	2439.84	3/2	1931.29	7/12
Norway							
Oslo SE(Ind)(2/1/83)	1100.63	1098.78	1104.23	1211.10	28/2	990.91	21/6
Philippines							
Manila Comp (2/1/85)	2863.17	2855.63	2822.71	3306.37	4/1	2507.93	9/3
Portugal							
BTA (1977)	2960.5	2961.1	2951.7	3226.69	18/2	2812.89	30/6
Singapore							
SES All-S'pore(2/4/75)	528.34	528.72	529.88	641.81	4/1	523.29	4/4
South Africa							
JSE Gold (28/9/78)	1973.0♥	1892.1	1881.1	2594.00	7/8	1749.00	14/2
JSE Ind. (28/9/78)	6922.9♥	6916.5	6912.5	6984.10	22/11	5446.00	19/1
South Korea							
KoreaCompEx(4/1/80)**	1068.69	1075.01	1065.03	1138.75	8/11	855.37	2/4
Spain							
Madrid SE (30/12/85)	304.21	(c)	304.66	358.31	31/1	288.65	26/10
Sweden							
AffarsvardsGen (1/2/37)	1471.80	1483.10	1501.0	1603.80	31/1	1334.70	8/7
Switzerland							
Swiss Bk Ind (31/12/58)	1212.82	1212.00	1223.08	1429.34	31/1	1139.72	27/10
SBC General (1/4/87)	914.13	915.57	922.20	1098.29	31/1	876.37	27/10
Taiwan							
WeightedPr.(30/6/66)**	6777.88	6709.47	5750.22	7191.13	30/9	5194.63	19/3
Thailand							
Bangkok SET (30/4/75)	1330.35	1342.59	(c)	1753.73	4/1	1196.59	4/4
Turkey							
Istanbul Comp.(Jan 1986)	28487.39	28400.2	28652.0	29146.10	2/12	12980.70	24/3
WORLD							
MS Capital Int (1/1/70)§	608.5*	609.9	610.4	649.90	2/11	591.60	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1335.98	1336.78	1353.74	1540.19	31/1	1286.48	5/10
Euro Top-100 (26/6/90)	1174.97	1175.22	1185.20	1311.01	2/2	1126.48	5/10
JCapalDrgns (31/12/88)	(u)	302.68	301.44	385.19	5/1	290.28	21/3
Barings Emerg.(7/1/92)	170.93	171.43	170.67	191.79	26/9	141.86	21/4

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	1978.0	1978.0	-1.0	2001.0	1971.0	20,722	33,584
Jan	1984.0	1985.5	-0.5	2006.0	1984.0	171	810
Feb	2015.5	1994.5	-0.5	2015.5	2015.5	55	7,383

Open interest figures for previous day.

** Sat Dec 3: Taiwan Weighted Price 6479.82; Korea Comp Ex 1064.03. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals/DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Dec 7 = 2044.04 -2.85

US INDICES

Dow Jones	Dec 6	Dec 5	Dec 2	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3745.95	3741.92	3745.62	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	94.19	94.02	93.89	105.61 (21/1)	93.61 (28/11)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1430.58	1448.15	1436.40	1862.29 (2/2)	1422.19 (23/11)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	180.73	180.40	179.41	227.06 (3/1)	173.94 (22/11)	256.48 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3762.10 (3779.98) Low 3703.56 (3715.67) (Theoretical♦)
Day's high 3749.32 (3763.11) Low 3716.85 (3727.11) (Actual♦)

Standard and Poors	Dec 6	Dec 5	Dec 2	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	453.11	453.32	453.30	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	537.88	538.12	538.83	583.10 (28/10)	510.05 (21/4)	583.10 (28/10/94)	3.62 (21/6/32)
Financial	41.51	41.48	41.25	48.94 (14/8)	38.87 (22/11)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	247.85	248.06	248.01	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	431.81	432.25	432.46	487.89 (2/2)	422.67 (22/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	741.23	745.71	745.02	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Dec 2	Nov 25	Nov 18	Year ago
Dow Jones Ind. Div. Yield	2.84	2.87	2.79	2.70
	Nov 30	Nov 23	Nov 16	Year ago
S & P Ind. Div. yield	2.46	2.48	2.38	2.40
S & P Ind. P/E ratio	18.42	18.29	19.03	27.14

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	453.80	451.40	-2.45	453.85	451.40	93,132	177,810
Mar	455.10	454.60	-2.40	455.20	454.60	14,351	88,095
Jun	-	458.90	-	-	458.90	204	5,598

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Hanson	14,486,700	18⅝	-⅛
RJR Nabisco	9,285,100	5⅞	-⅛
Merck	4,624,600	37⅝	---
A T & T	3,252,000	48⅞	+⅝
Compaq	3,199,700	41⅝	+¾
Am Barrick	2,867,200	20⅞	+¼
Micron	2,805,100	43¾	-⅛
Wal-Mart	2,701,200	22⅛	-⅛
Telefonos	2,621,900	53¾	+1⅛
Philip Morris	2,347,500	58	-1

■ TRADING ACTIVITY

● Volume (million)

	Dec 6	Dec 5	Dec 2
New York SE	289,009	258,487	284,745
Amex	15,625	16,852	14,761
NASDAQ	262,268	221,547	230,857
NYSE			
Issues Traded	2,926	2,928	2,915
Rises	932	1,184	1,425
Falls	1,278	1,050	870
Unchanged	715	694	620
New Highs	16	11	4
New Lows	154	103	120

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

4 pm close December 7

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
17 3/8	11 7/8	AAR	0.48	3.8	22	28	12 7/8	12 3/4	12 7/8	-1/8
18 1/8	12 5/8	A L Labs A	0.18	1.1	37	45	17 1/4	16 5/8	16 5/8	-7/8
78 3/8	57 5/8	AMP	1.68	2.4	21	758	71	70 3/4	70 7/8	-1/8
72 3/4	48 1/8	AMR			108	5079	61 3/8	60 1/2	60 7/8	+1/8
5	3 1/8	ARX			12	95	3 7/8	3 3/4	3 3/4	
58 1/8	38 5/8	ASA	2.00	4.6	28	1158	43 5/8	42 7/8	43 5/8	+1 1/4
33	25 3/8	AbbotL	0.76	2.3	17	8858	32 1/2	32 1/4	32 3/8	-1/4
15 1/4	11 3/8	Abitibi Pr	0.50	3.8	11	177	13 1/8	13	13	-1/8
23 3/8	17 3/4	ABM Ind	0.52	2.4	13	7	21 7/8	21 3/8	21 3/8	
18	11 1/8	Acptncetn			10	131	14	13 7/8	14	+1/8
31	20 3/4	ACE Ltd	0.44	2.0	21	101	22 1/4	22 1/8	22 1/4	
12 1/2	9	ACM Gvt In x	1.09	11.6	8	1142	9 5/8	9 3/8	9 1/2	-1/8
10 1/8	6 7/8	ACM GvOpp x	0.80	11.4		233	7 1/8	7	7	-1/8
10 5/8	6 3/4	ACM Gvt Sp x	0.96	12.8		266	7 1/2	7 3/8	7 1/2	
12	7 3/8	ACM Gvt Se x	1.09	12.5		479	8 7/8	8 3/4	8 3/4	-1/8
11 3/4	7 3/8	ACM Man x	1.08	12.7		228	8 1/2	8 3/8	8 1/2	+1/8
9 1/4	8	ACM Mangd x	0.72	8.7		36	8 1/4	8 1/8	8 1/4	+1/8
15 1/2	8 3/4	AcmeClv	0.44	3.8	23	31	11 5/8	11 3/8	11 5/8	+1/2
13 7/8	6 1/2	Acme Elect			18	35	13	12 7/8	13	-1/8
29 1/4	23	Acordia	0.60	2.0	15	35	u30	29 3/4	29 7/8	+1/4
13 3/4	5 3/4	Actava	0.36	3.9	2	361	9 3/8	9 1/8	9 1/4	
18 3/8	11 1/4	Acuson			26	211	16 1/4	16	16 1/8	
18 3/8	15 1/2	Adams Expr	0.68	4.3	0	141	15 7/8	15 5/8	15 3/4	
64	46 1/2	Ad Micro x	3.00	5.7		15	53 1/4	52 3/4	53	-1/2
31 3/4	16 3/4	AdvMic	3.00	12.5	7	4518	24 5/8	24	24	-5/8
[illegible]										

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- B - [illegible]

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- D - [illegible]

- E - [illegible]

- F - [illegible]

- G - [illegible]

- H - [illegible]

- I - [illegible]

- J - [illegible]

- K - [illegible]

- L - [illegible]

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- N - [illegible]

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- P - Q - [illegible]

- R - [illegible]

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4 pm close December 7

NYSE COMPOSITE PRICES

Continued from previous page

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- W -

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Price data supplied by Telekurs

NASDAQ NATIONAL MARKET

4 pm close December 7

- B -

- C -

- D -

- E -

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AMEX COMPOSITE PRICES

4 pm close December 7

AMERICA

Fear of interest rate rise unsettles equities

Wall Street

US share prices zig-zagged in negative territory yesterday morning amid new signs that the Federal Reserve will raise interest rates again in the near term, *writes Lisa Bransten in New York.*

By 1 pm, the Dow Jones Industrial Average was down 18.84 at 3,727.1.The more broadly based Standard & Poor's 500 was 2.00 lower at 451.11, the American Stock Exchange composite down by 2.37 at 428.64 and the Nasdaq composite 4.08 weaker at 737.15. Trading volume on the New York Stock Exchange had reached 158m shares.

The Dow hit its low for the morning as Mr Alan Greenspan, chairman of the Federal Reserve, told a Congressional panel that he continued to be concerned about the inflationary pressures on the economy. Although consumer prices have held steady so far this year, Mr Greenspan said that he believed that producers would try ultimately to pass increasing prices on to consumers.

Mr Greenspan justified the Fed's six interest rate increases this year as a means to stamp out both inflationary pressures and inflationary expectations and gave no indication that he believed either had been completely stopped.

The closely-watched Beige Book, released yesterday in advance of the December 20 meeting of the Fed's open market committee meeting, reported economic activity continuing at the strong pace of recent months and said that rises in raw and intermediate material costs were being passed through to the prices of some final products. The Fed's report also said that early holiday season retail sales were strong in nearly all regions of the US.

Most economists believe the Fed will boost rates again in the next two to three months, but few place high odds on a rate increase after the upcoming open market committee meeting, because of the proximity to Christmas. The market is concerned that another interest rate increase will slow demand and deter corporate borrowing causing an erosion in corporate earnings.

Also troubling the market was the announcement after Monday's close that Orange County, California had filed for bankruptcy protection after sustaining $1.5bn in unrealised losses in its investment portfolio. Shares of Merrill Lynch – one of the county's largest lenders – fell $1⅛ at $35⅞ on worries over exposure to the bankruptcy.

Steel companies gained after unconfirmed reports late on Tuesday that USX-US Steel Group had achieved a favourable contract with General Motors. News of the contract which, it was reported, allows a 16 per cent price increase over two years, sent the USX price up $⅝ at $34⅝.

Other steel suppliers gained after a Lehman Brothers analyst upgraded the companies on the basis of the USX reports. Bethlehem Steel gained $¼ at $17⅝, Inland Steel Industries rose $⅛ at $34⅝, WHX climbed $⅛ at $14⅝ and Geneva Steel was up $⅝ at $13.

Continental Corporation, the holding company for Continental Insurance, gained $4¾ at $18¾ after news that it would be acquired by CNA Financial for $1.1bn in cash. Shares in CNA were unchanged at $63 on the news.

Shares in Price/Costco fell $⅛ at $14½ on news that the discount retailer would pull out of its joint venture in Mexico. The company's chief rival south of the border, Wal-Mart Stores, gained $⅛ at $22½ on the news.

Canada

Toronto continued to languish at lower levels in midday trade, pressured by renewed fears on interest rates. The TSE 300 composite index was off 7.95 at 4,071.49, with a strong rise in the precious metals sector helping to stem some of the losses elsewhere.

Of 14 sub-indices, nine were weaker at midday. Gold and silver surged 229.64 or 2.7 per cent to 8,827.90 as bullion prices rebounded in London. Financial services dropped 39.72 or 1.3 per cent to 3,116.15 on profit-taking after a series of results from the sector.

Active issues were topped by Methanex Corp, flat at C$18 with 1.78m shares changing hands, and American Barrick, up C$⅛ at C$29 in 1.25m.

Brazil

São Paulo was slightly firmer at midsession as investors awaited the government auction of a 55.4 per cent stake in Embraer, the aircraft manufacturer. The Bovespa index was up 90 at 45,820 by 1 pm in low turnover of R$97.1m ($114.6m).

Up to 30 brokerage houses had expressed an interest in participating in the auction, with domestic pension funds – which already hold around $70m in Embraer debt – expected to be the main bidders.

Embraer preferred was down 1.3 per cent at R$78 prior to the auction. Among other movers, Telebras preferred rose 1 per cent to R$39.90, Vale do Rio Doce fell 1.3 per cent to R$153 and Petrobras preferred was flat at R$118 after it posted a US$1.48bn net profit for the first 10 months of 1994.

SOUTH AFRICA

Gold shares made most of the running in Johannesburg as stable bullion prices and a weaker financial rand triggered foreign buying. The golds index forged ahead 90 or 4.8 per cent to 1,971, while the overall index put on 51 at 5,773.

Among active gold issues, Randfontein Estates advanced R4.25 to R43 and Harties R1.25 to R20. Driefontein and Kloof finished at R60.25 and R57.50 respectively, R2.50 and R3 stronger.

De Beers continued its recent recovery, closing R2.75 higher at R93.25.

Industrial shares were steady, the sector index rising 6 to 6,922. AECI, the chemicals group, was unchanged at R34 after an announcement that ICI had sold its 13.3 per cent stake to the UK merchant bank S.G. Warburg for 280m.

EUROPE

Orange County aftermath hits bourses

Reaction to the Orange County derivatives debacle in California led to a sharp sell-off at the long end of the US bond market; German bunds moved from consolidation into decline and Continental equity bourses from mundane to morose, *writes Our Markets Staff.*

FRANKFURT traders mooted a switch from banks to automotive stocks as the Dax index rose 8.72 to 2,055.60 on the session, but a lot of heads were retracted as it eased to an Ibis-indicated 2,044.04 after hours.

Turnover fell from DM5.3bn to DM5.1bn. Gains of over a percentage point for both Daimler and Volkswagen almost disappeared, with the former unchanged at DM747 by the end of the afternoon, and the latter only DM2 ahead at DM422. With BMW down DM5 to DM750, this left the automotive trio roughly parallel with the big three banks.

Deutsche Bank fell DM3.30 to DM732.60 after its 10-month figures, Dresdner recovered a token 60 pfg to DM409.10 and Commerzbank, a touch oversold on Tuesday, rose DM2.10 to DM322.10.

Mr James Cornish at NatWest Securities said it was not the time to get into auto stocks; and he did not agree with predictions of an early rise in German interest rates. "Germany is two years behind the UK in the economic recovery process," he said, "and UK interest rates did not rise until last September."

ZURICH was unable to hold on to early gains after Wall Street's weak opening and the SMI index finished 4.8 lower at 2,584.3, off a high of 2,601.9.

Banks remained under pressure, with investors still switching between the big three and into insurers, amid worries about sluggish 1994 earnings. Bank Vontobel downgraded its 1994 earnings forecasts for the three this week but raised its 1995 estimates.

UBS bearers dropped SFr12 to SFr1,122, SBC gave up SFr8 to SFr362 and CS Holding ended SFr5 lower at SFr536. Swiss Re, recommended by a private Geneva bank, picked up SFr2 to SFr791.

A SFr100 fall by Interdiscount to a low for the year of SFr1,640 was attributed to a bearish note on the electronics retailer by Credit Suisse.

PARIS ended with a rise of just 0.89 at 1,969.84. Turnover was unexceptional at FFr3.2bn.

In the automotive sector, Michelin slipped FFr2.70 to FFr197.20 on unconfirmed reports that the stock had been downgraded, while Valeo, which supplies parts to the industry, fell FFr10.70 or 4 per cent to FFr255.30.

Valeo has fallen some 20 per cent since it reached a year's high in the middle of January, but has improved 8.5 per cent since its 1994 low in June. Nikko Europe, earlier this month, revised upwards its 1994 profits forecast for the company to FFr395m, and estimated profits at FFr1.15bn for 1995, based on an expected improvement in the European car market.

MILAN had many absentees ahead of today's national holiday, as the Comit index gave up 1.76 to 613.60.

Credito Romagnolo rose L491 or 2.8 per cent to L17,900 as speculation continued that the offer from Credito Italiano at L20,000 a share, approved yesterday by the Bank of Italy, still faced a challenge from Cariplo or IMI. Italiano slipped L13 to L1,581 and IMI was L10 lower at L9,621. Cariplo has made no public comment but IMI yesterday kept its options open, although it ruled out a lone bid for control.

Telecom Italia declined L67 to L3,965 after a government committee postponed a decision on liberalising analogue mobile phone tariffs and lowering its licence fee.

Autostrade preferred stock jumped L55 to L2,032 after the public works minister said ordinary shares in the state controlled motorways group could be listed next year.

AMSTERDAM searched around to find direction and closed with the AEX index off 1.09 at 410.09.

Hoogovens, down 90 cents at Fl 75.40, attracted further positive comment from Goldman Sachs, which remarked that, in spite of the stock's recent underperformance, the group remained one of the best in the sector, lifting its 1994 earnings forecast to Fl 6.55 per share from Fl 6.00.

MADRID, in a week shortened by holidays on Tuesday and today, played construction stocks for gains as the general index eased 0.45 to 304.21.

Turnover was Pta22.2bn, boosted by block trades. Dragados rose Pta50 or 2.4 per cent to Pta2,085.

WARSAW blamed a delayed reaction to Monday's announcement of a new 0.2 per cent stock transaction tax from January 1 as the Wig index closed 343.7 or 4.3 per cent lower at 7,702.5.

After the tax was accepted by parliament, the Wig index dropped to a 1994 low of 6,716 on November 16, but last week it pushed back to 8,177 on revived optimism.

Written and edited by William Cochrane, John Pitt and Michael Morgan

FT-SE Actuaries Share Indices

Dec 7							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1338.55	1340.39	1341.45	1342.40	1342.32	1339.93	1336.89	1335.98
FT-SE Eurotrack 200	1387.55	1389.89	1389.30	1390.89	1391.48	1388.31	1384.32	1382.94

	Dec 6	Dec 5	Dec 2	Dec 1	Nov 30
FT-SE Eurotrack 100	1336.78	1353.74	1342.92	1344.45	1341.95
FT-SE Eurotrack 200	1382.95	1399.40	1390.87	1393.94	1397.14

Base 1000 (26/10/90); Highday: 100 - 1342.78; 200 - 1393.16 Lowday: 100 - 1335.33 200 - 1381.83 † Partial

ASIA PACIFIC

Nikkei takes its lead from Chicago futures

Tokyo

The Nikkei 225 eased 166.24 to 19,174.23 as traders cashed in two days of gains and arbitrageurs unwound positions due to lower overnight Chicago futures prices, *writes Robert Patton in Tokyo.*

The 225 index slid from an early high of 19,305.56, traders attributing a decline of 105.42 in the first 15 minutes of trading to futures-led sales followed by a wave of profit-taking. In the afternoon the market continued its decline as the index fell to a low of 19,138.83, then recovered slightly by the close.

Volume was estimated at 222m shares. The first-section Topix index slipped 10.14 to 1,525.35 and the Nikkei 300 ended at 281.45, down 1.90, while falls outstripped rises by 742 to 259, with 181 issues unchanged. But in London the ISE/Nikkei 50 index put on 1.24 at 1,263.77.

A dip in the dollar below Y100 undercut remaining bullish sentiment, and renewed exchange rate concerns. Most large exporters, including the high-technology companies which led Monday's advance, suffered. Sony fell Y180 to Y5,330 and Pioneer Electronic, which earlier in the day announced an advanced commercial karaoke on-line system, closed at Y2,300, off Y80.

The major brokerage houses retreated: Nomura shed Y50 to Y2,040 and Nikko Securities Y40 to Y1,160.

Steelmaker NKK, the volume leader, held at Y278. Nippon Steel, the third most active issue, was up Y1 at Y374.

Privatised stocks were mixed. NTT retreated Y11,000 to Y835,000 after a newspaper reported that the government was considering the issue of bonds convertible into NTT stock. Eight years after privatisation, the government remains the majority shareholder in NTT. East Japan Railway, ending unchanged in the last three sessions, gained Y4,000 at Y473,000. Japan Tobacco firmed Y1,000 to Y956,000 and Japan Telecom, on the second section, remained at Y3.25m.

Daiei moved up Y30 to Y1,430 on reports that the major retailer plans to enter the personal handy telephone system market through capital participation with Astel Tokyo, a PHS operating company.

In Osaka, the OSE average receded 107.08 to 21,213.50 in volume of 53.5m shares.

Roundup

A weak trend afflicted much of the region.

SEOUL encountered late profit-taking in blue chips and some smaller-capitalised shares after three days of gains. The composite stock index lost 6.08 at 1,068.93, after a day's high of 1,080.66.

Hyundai group shares gained momentum on the belief that they had been undervalued. Hyundai Pipe went limit up by Won800 to Won167,000 and Hyundai Engineering and Construction rose Won700 to Won41,600.

Hyundai Precision appreciated Won700 to Won23,600 on news that the government had given the company the go-ahead to assemble Mitsubishi's mini-van.

HONG KONG was indecisive, awaiting further direction from London and Wall Street, and the Hang Seng index ended down 64.15 at 8,268.50. Turnover crept up to HK$2.7bn, from HK$2.6bn on Tuesday.

BOMBAY fell 1.5 per cent amid widespread selling by foreign and domestic mutual funds and an absence of buying support, ahead of today's close of the monthly account. The BSE 30-share index shed 61.98 to 3,978.39.

Analysts said the weakness was triggered by hectic selling of India's top two blue chip companies. Reliance lost Rs17.50 or 4.6 per cent at Rs366.25 and Tisco slid Rs13.75 or 4.9 per cent to Rs265.

SINGAPORE managed to pare some of its early losses but still closed lower. The Straits Times Industrial index ended 6.69 off at 2,180.38 and the UOB OTC index, tracking Malaysian stocks, slipped 1.1 to 1,083.78.

KUALA LUMPUR turned softer in the afternoon amid dwindling volume, with the composite index closing 2.0 down at 951.68, off an early high of 962.58. The index was again pulled down by falls in the utility giants Tenaga Nasional and Telekom Malaysia, which saw continued foreign fund selling.

Tenaga and Telekom dipped 10 cents each to M$10.10 and M$17.10 respectively.

BANGKOK was lower in thin turnover ahead of today's vote on a proposed constitutional amendment which could reduce the power of many local authority officials. The SET index finished 12.24 points down at 1,330.35.

SYDNEY was weaker in light volume after the Reserve Bank failed to unveil a widely expected rise in official short-term interest rates before the start of trading. The All Ordinaries index ended 21.9 or 1.2 per cent down at 1,869.2, just off its intraday low of 1,868.8.

WELLINGTON was pulled down to a low for the year by weakness among leading stocks, and particularly Telecom, 6 cents cheaper at NZ$5.16. The NZSE-40 Capital index fell 10.16 to 1,931.29.

TAIPEI closed 1.0 per cent higher in heavy trade which saw the weighted index rise 68.21 to 6,777.68. Turnover amounted to T$86.2bn.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

		Dollar terms			Local currency terms		
Market	No. of stocks	Dec. 2 1994	% Change over week	% Change on Dec '93	Dec. 2 1994	% Change over week	% Change on Dec '93
Latin America	(207)	701.44	+2.0	+7.8			
Argentina	(24)	841.10	+5.6	-15.4	515,167.58	+5.4	-15.6
Brazil	(57)	389.84	+0.9	+67.5	1,250,849,525	+0.8	+1,130.9
Chile	(25)	799.08	+1.3	+44.8	1,278.67	-2.8	+34.1
Colombia[1]	(11)	766.69	-1.4	+18.9	1,127.11	-1.3	+21.6
Mexico	(67)	930.02	+2.1	-10.3	1,338.85	+1.9	-0.8
Peru[2]	(11)	187.90	+4.2	+55.4	248.35	+3.2	+56.2
Venezuela[3]	(12)	447.78	+5.1	-24.3	1,748.60	+5.2	+23.0
Asia	(558)	246.04	-3.2	-15.2			
China[4]	(18)	83.02	-9.4	-44.4	89.26	-9.4	-45.6
South Korea[5]	(156)	142.12	-3.7	+20.3	147.94	-4.1	+17.9
Philippines	(19)	278.92	-6.7	-18.1	326.08	-4.9	-26.6
Taiwan, China[6]	(90)	148.48	+1.3	+9.8	146.85	+1.7	+9.8
India[7]	(76)	128.44	-1.0	+10.3	143.20	-1.0	+11.2
Indonesia[8]	(38)	98.52	-3.3	-21.0	116.60	-3.2	-18.1
Malaysia	(104)	266.35	-4.0	-21.4	251.46	-4.0	-25.4
Pakistan[9]	(15)	386.20	+2.6	-0.5	537.90	+2.7	+1.8
Sri Lanka[10]	(5)	187.25	+2.1	+5.6	200.01	+2.0	+4.7
Thailand	(55)	383.50	-1.6	-19.7	381.75	-1.4	-21.0
Euro/Mid East	(125)	125.35	+2.5	-26.0			
Greece	(25)	218.77	+3.4	-3.9	360.61	+4.8	-6.2
Hungary[11]	(5)	164.72	-2.3	-1.2	219.61	-1.5	+8.8
Jordan	(13)	153.79	-1.3	-7.1	227.27	-1.0	-5.1
Poland[12]	(12)	496.37	+8.5	-39.3	757.12	+10.2	-31.4
Portugal	(25)	124.24	-2.0	+9.2	137.74	-0.7	-0.3
Turkey[13]	(40)	136.05	+4.0	-36.0	2,341.79	+4.1	+61.0
Zimbabwe[14]	(5)	263.57	-1.0	+30.4	326.03	-0.2	+52.6
Composite	(890)	335.98	-0.3	-5.6			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10)Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Aug 4 1989; (14)July 2 1993.

After a disappointing performance for Asian equity markets during 1994 at least two brokers have produced positive scenarios for the region next year, writes John Pitt.
Salomon Brothers is on record with a prediction that while turbulence is likely to continue, a rise of some 20 per cent in individual indices could be attained. However, the broker notes that liquidity is likely to be down from the levels seen in 1994.
Mr Alan Butler-Henderson, Baring's director of Asian strategy, was equally upbeat at a presentation in London earlier this week. He saw markets accelerating by between 20 to 30 per cent in 1995. In common with Salomon he picked the Philippines as having the potential for the strongest performance.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY DECEMBER 6 1994								MONDAY DECEMBER 5 1994					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (68)	168.84	-0.4	160.16	107.00	138.04	148.11	-0.2	3.93	169.55	161.23	107.56	138.75	148.36	189.15	155.95	156.95
Austria (16)	179.09	-0.5	169.87	113.49	146.41	146.39	-0.6	1.11	180.02	171.19	114.20	147.32	147.24	196.89	167.46	180.66
Belgium (35)	168.20	-0.5	159.54	106.59	137.50	134.08	-0.7	4.12	169.11	160.81	107.28	138.39	134.98	177.04	159.64	161.28
Brazil (28)	170.14	-0.1	161.39	107.82	139.09	264.95	-1.0	0.78	170.40	162.04	108.10	139.45	267.56	-	-	-
Canada (103)	127.92	-0.4	121.34	81.06	104.57	127.24	-0.3	2.70	128.41	122.11	81.46	105.09	127.66	145.31	120.54	132.92
Denmark (33)	241.33	-1.0	228.91	152.93	197.29	202.01	-1.1	1.47	243.81	231.85	154.67	199.52	204.27	275.79	234.08	256.76
Finland (24)	180.72	-0.2	171.43	114.53	147.74	185.30	0.0	0.76	181.01	172.13	114.83	148.13	185.30	201.41	116.66	121.70
France (102)	168.08	-0.2	159.44	106.52	137.41	142.36	-0.3	3.01	168.38	160.12	106.82	137.80	142.78	185.37	159.34	169.44
Germany (58)	137.61	-1.1	130.54	87.21	112.50	112.50	-1.2	1.84	139.16	132.33	88.28	113.88	113.88	150.40	128.37	135.06
Hong Kong (56)	332.89	0.7	315.77	210.96	272.15	330.55	0.7	3.75	330.45	314.23	209.63	270.43	328.20	506.56	327.43	391.30
Ireland (14)	196.16	-1.4	186.08	124.32	160.37	180.82	-1.0	3.53	198.66	189.10	126.15	162.74	182.63	216.60	176.63	176.65
Italy (59)	72.24	-2.5	68.53	45.78	59.06	87.70	-2.0	1.80	74.06	70.43	46.99	60.61	89.52	97.78	64.57	64.57
Japan (468)	154.30	0.4	146.37	97.78	126.15	97.78	0.3	0.79	153.74	146.20	97.53	125.82	97.53	170.10	127.18	132.02
Malaysia (97)	467.25	-0.6	443.22	296.11	382.00	461.46	-0.6	1.90	470.18	447.11	298.26	384.78	464.39	621.63	430.71	503.49
Mexico (18)	2056.59	-0.2	1950.79	1303.31	1681.30	7747.44	-0.1	1.32	2061.46	1960.29	1307.76	1687.00	7751.12	2647.08	1696.26	2145.67
Netherland (19)	210.14	-0.5	199.34	133.18	171.80	168.95	-0.6	3.42	211.16	200.80	133.96	172.81	169.89	223.30	191.26	194.65
New Zealand (14)	71.55	0.6	67.87	45.34	58.49	60.12	0.3	4.87	71.15	67.66	45.14	58.23	59.94	77.59	62.05	63.53
Norway (23)	202.95	-0.4	192.51	128.61	165.91	188.72	-0.5	1.75	203.81	193.81	129.29	166.79	189.59	211.74	168.11	170.89
Singapore (44)	362.76	0.4	344.10	229.89	296.57	244.84	0.2	1.75	361.39	343.65	229.26	295.75	244.36	401.38	294.66	321.50
South Africa (59)	321.09	-0.8	304.57	203.48	262.50	292.30	0.0	2.24	323.64	307.76	205.31	264.85	292.29	342.00	205.55	224.06
Spain (36)	140.67	0.0	133.43	89.15	115.00	140.62	0.0	4.06	140.61	133.71	89.20	115.07	140.62	155.79	132.91	134.93
Sweden (36)	230.31	-1.9	218.46	145.95	188.29	256.65	-1.5	1.56	234.89	223.37	149.01	192.23	260.49	242.61	185.22	185.78
Switzerland (47)	160.24	-0.6	152.00	101.55	131.00	131.78	-0.8	1.85	161.26	153.34	102.30	131.96	132.78	176.56	149.91	154.93
Thailand (46)	156.28	0.9	148.24	99.04	127.77	152.09	0.8	2.41	154.95	147.35	98.30	126.81	150.92	-	-	-
United Kingdom (204)	191.29	-0.3	181.45	121.23	156.39	181.45	-0.6	4.26	191.97	182.55	121.79	157.10	182.55	214.96	181.11	196.43
USA (513)	185.38	-0.1	175.84	117.48	151.55	185.38	-0.1	2.97	185.51	176.41	117.69	151.81	185.51	198.04	178.95	189.93
Americas (662)	173.32	-0.1	164.40	109.84	141.69	144.12	-0.1	2.89	173.48	164.96	110.05	141.96	144.26	-	-	-
Europe (708)	166.44	-0.6	157.88	105.48	136.07	149.57	-0.7	3.13	167.51	159.29	106.27	137.08	150.68	178.58	160.59	163.26
Nordic (116)	220.19	-1.3	208.86	139.54	180.01	209.76	-1.1	1.41	223.19	212.24	141.59	182.65	212.04	233.91	180.05	181.24
Pacific Basin (793)	161.81	0.3	153.49	102.54	132.29	106.81	0.2	1.17	161.29	153.38	102.32	132.00	106.55	176.86	141.04	142.71
Euro-Pacific (1501)	163.65	-0.1	155.23	103.71	133.78	123.76	-0.2	2.01	163.80	155.76	103.91	134.04	123.96	175.14	150.97	151.10
North America (616)	181.81	-0.1	172.46	115.22	148.63	181.38	-0.1	2.95	181.97	173.04	115.44	148.91	181.53	192.73	175.67	186.39
Europe Ex. UK (504)	149.39	-0.6	141.71	94.67	122.13	130.30	-0.8	2.48	150.60	143.21	95.54	123.24	131.37	158.12	142.17	142.40
Pacific Ex. Japan (325)	236.82	0.1	224.64	150.08	193.61	208.14	0.1	3.21	236.58	224.97	150.08	193.61	207.86	298.21	232.58	244.91
World Ex. US (1709)	165.44	-0.1	156.93	104.84	135.25	127.34	-0.2	2.01	165.63	157.50	105.07	135.55	127.58	176.65	162.65	152.65
World Ex. UK (2018)	169.07	-0.1	160.37	107.14	138.22	141.59	-0.1	2.15	169.20	160.89	107.34	138.46	141.73	178.59	160.95	161.03
World Ex. Japan (1754)	181.87	-0.3	172.51	115.25	148.68	173.08	-0.3	2.99	182.40	173.45	115.71	149.27	173.82	195.20	176.34	182.57
The World Index (2222)	171.04	-0.1	162.24	108.39	139.83	145.22	-0.1	2.35	171.21	162.81	108.61	140.11	145.44	180.80	164.12	164.12

Latest prices were unavailable for this edition. Markets closed 6/12/94: Finland and Spain.